

# FINANCIAL TIMES



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**Nuclear weapons**  
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**Health**  
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**Today's surveys**  
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Separate Sections

D8523A

## Pressure builds on Shell over Nigerian natural gas plant

Shell is under increasing pressure over a planned \$4bn liquefied natural gas plant in Nigeria as the European Union prepares to step up sanctions in protest at the hanging of nine minority rights activists. Protesters in Hamburg erected a mock gallows outside the company's German headquarters, while Shell denied reports that it had delayed a decision on whether to invest in the plant. Shell's UK staff lose out in job cuts, Page 3; 'No doubts' over Nigeria gas project, Page 10; Foreign investors in no hurry to divest, Page 14; Observer, Page 19

**Euro blueprint set to follow German line:** A blueprint for the introduction of a single European currency, due out today, will reflect some of Germany's key demands, including a long transitional phase. Bundesbank president Hans Tietmeyer said, Page 3; Editorial Comment, Page 19

**Juppé gives pledge on French welfare gap**

French prime minister Alain Juppé (left) promised "profound and audacious" action to rescue the country's social security system and eliminate accumulated welfare deficits of FF720bn (\$47.22bn). The reform is the government's biggest challenge and may determine whether France qualifies for European monetary union in 1999. But the strategy, backed by President Jacques Chirac, fuelled concerns about France's slowing economy, Page 2

**Strong demand for Adidas share offer:** Shares in Adidas, the German sports goods maker, are expected to rise sharply when trading begins on Friday after it emerged a public offering of them was oversubscribed by more than 12 times, Page 21

**Indonesia halves PT Telkom equity offer:** Indonesia's fledgling privatisation programme suffered an embarrassing setback when the government halved the size of an international equity offering for PT Telkom, its telecommunications company, Page 21; Lex, Page 20

**Swiss help probe Airbus bribe claims:** The Royal Canadian Mounted Police have asked the Swiss authorities for help in investigating allegations that bribes were paid during a large sale of Airbus aircraft to Air Canada, Page 20

**Chung Hwa Picture Tube, the Taiwanese company which is the world's largest producer of cathode ray tubes, is expected to announce a \$380m investment to build a plant in Scotland, Page 20**

**Cracks show in Fujimori's authority:** Principal candidates backed by Peru's President Alberto Fujimori in the municipal ballot have been defeated for the first time in six nationwide elections since 1990, Page 7

**Saab Automobile,** the Swedish carmaker managed and half-owned by General Motors of the US, has plunged back into the red nine months after recording its first profit for six years, Page 21

**Tokyo fails to ease Apec farm row:** Japan failed to resolve a farm trade row between Pacific rim governments when the wording of a compromise draft trade document was rejected by some delegates at a forum in Osaka, Page 6

**BBA Group,** the engineering and industrial products company, has further streamlined its industrial division by selling four subsidiaries for £19m (\$30m), Page 26

**CanWest in bid for national TV network:** Canadian broadcasting group CanWest Global Communications aims to cement a national TV network with a C\$865m (US\$715m) bid for Vancouver's WIC Western International Communications, Page 24

**Burma shifts from reliance on China:** A senior member of Burma's military junta has visited Russia for the first time and diplomats in Rangoon strongly suspect the Russians will have offered to sell arms to the regime, underlining that its reliance on China, its principal foreign partner, has become less vital, Page 8

**Correction:** A group photograph published on November 13 included Mr Jean Chrétien, the Canadian prime minister, and not Mr Jim Bolger, the New Zealand prime minister, as was described in a news agency caption.

**Due to technical problems, some prices contained in the FT managed funds service have not been updated for this edition.**

**US STOCK MARKET INDICES**

New York Industrial 4,955.39 -1.95 Dow Jones Ind 1,005.25 +1.38

Europe and Far East 1,005.25 +1.38

CAC40 1,038.24 -1.58

DAX 2,175.28 +3.11

FTSE 100 3,538.58 +3.40

Nikkei 17,789.45 +54.10

**US LONG-TERM RATES**

Federal Funds 5.5% 61.51

3-month T-bills 10.4% 105.10

Long Bond 10.7% 101.09

Yield 6.25% 101.2

10-year T-bonds 10.4% 104.17

Germany 10-yr Bund 10.1% 101.09

Japan 10-yr JGB 11.3% 113.38

Bond 15-day Libor 5.16% 116.37

Brent 15-day LCO 11.62% 116.37

Germany 10-yr Gilt 5.7% 117.70

**EU STOCK MARKET INDICES**

Austria 1,520.00 -0.50

Belgium 1,070.00 -0.50

Denmark 1,000.00 -0.50

Spain 1,000.00 -0.50

Portugal 1,000.00 -0.50

Croatia 1,000.00 -0.50

Poland 1,000.00 -0.50

Hungary 1,000.00 -0.50

Finland 1,000.00 -0.50

France 1,000.00 -0.50

Italy 1,000.00 -0.50

Portugal 1,000.00 -0.50

Spain 1,000.00 -0.50

Germany 1,000.00 -0.50

**EUROPEAN STOCK MARKET INDICES**

Austria 1,520.00 -0.50

Belgium 1,070.00 -0.50

Denmark 1,000.00 -0.50

Spain 1,000.00 -0.50

Portugal 1,000.00 -0.50

Croatia 1,000.00 -0.50

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Italy 1,000.00 -0.50

Portugal 1,000.00 -0.50

Spain 1,000.00 -0.50

Germany 1,000.00 -0.50

**FOREIGN EXCHANGE RATES**

Austria 1,520.00 -0.50

Belgium 1,070.00 -0.50

Denmark 1,000.00 -0.50

Spain 1,000.00 -0.50

Portugal 1,000.00 -0.50

Croatia 1,000.00 -0.50

Poland 1,000.00 -0.50

Hungary 1,000.00 -0.50

Finland 1,000.00 -0.50

France 1,000.00 -0.50

Italy 1,000.00 -0.50

Portugal 1,000.00 -0.50

Spain 1,000.00 -0.50

Germany 1,000.00 -0.50

**COMMODITIES**

Gold 380.50 -0.50

Silver 11.50 -0.50

Pt 1,410.00 -0.50

Crude Oil 21.50 -0.50

Gasoline 1.10 -0.50

## NEWS: EUROPE

# French delay in new rules for markets

By Andrew Jack in Paris

fied by the EU directive relatively easy.

Changes to the regulatory system for France's financial markets will mean a delay in the country implementing the European Union's investment services directive, it emerged yesterday. The directive is intended to liberalise financial markets in the EU.

Upsetting the timetable are proposed measures designed to make the markets watchdog, the Commission des Opérations de Bourse (COB), more independent from those operating in the markets.

Revised proposals are unlikely to be presented before the end of this month at the earliest, making their passage into law unlikely until next February after they have been fully debated in the National Assembly and the Senate.

Mr Jean Arthuris, the economics and finance minister, confirmed yesterday that the timetable for the directive was likely to slip from its theoretical starting date of January 1 next year.

He would not reveal precise details of the modifications to the law, but they are believed to relate largely to the structure of the COB, which regulates the French equities and derivatives markets.

Representatives of the French financial markets argue that Paris has already undergone substantial restructuring in the past few years and is open to foreign competition. This should make the transition to the new regime speci-

**Bold action is promised to rescue the ailing social security system**

## Juppé pledge on welfare gap

By John Riddiford in Paris

"Profound and audacious" action was promised yesterday by Mr Alain Juppé, the French prime minister, to rescue the country's stricken social security system and eliminate accumulated welfare deficits of FF1230bn (230bn). He was opening a debate in the National Assembly ahead of the announcement of welfare reform measures and a confidence vote scheduled for tomorrow.

The reform is the government's biggest challenge and may determine whether France qualifies for European monetary union in 1999. Failure to eliminate the annual FF150bn welfare shortfall by 1997 would undermine attempts to cut the country's public deficits from a forecast 5 per cent this year to the 3 per cent maximum laid down in the Maastricht treaty.

However, the modifications planned by Mr Arthuris largely reflect the conclusions in a report to be signed before he became a minister earlier this year. This was issued by the Senate finance commission, and called for changes to the way in which the COB is governed.

The report was partly a reaction to growing criticism that the COB lacks adequate independence from the financial services sector. It is currently governed by a council of members who are drawn from the companies operating in the market and who serve four-year terms.

The Senate committee called instead for a board of six regulators, to be appointed for nine-year terms, who would be nominated by parliament and ratified by the cabinet. They would vote among themselves to choose a chairman.

This process would cause difficulties for Mr Michel Prada, a civil servant appointed in the past few weeks as chairman of the COB for a six-year term following the expiry of mandate of Mr Jean Saint-Geours, who came into office in 1989.

**Proposals are due this week to save the welfare system from bankruptcy, writes David Buchanan**

The French state this week steps right into the centre of the country's quasi-private social security system to save it from bankruptcy and from preventing France qualifying for European monetary union.

After a three-day welfare debate in the National Assembly, Mr Alain Juppé, the prime minister, will tomorrow put a package of increased charges and spending cuts to a vote of confidence in his new government.

The package is aimed at wiping out the social security systems' FF150bn (£7.5bn) annual deficit. But this week will also see France's "off-budget" welfare system of nearly FF150bn come, for the first time in its 50-year history, under real parliamentary scrutiny. It will then sweep aside any remaining pretence by employers and union leaders that they exercise real power over the health insurance, pen-

sion and family allowance funds they have long nominally co-administered.

The unions' demonstrations today against the changes stem almost as much from their anxiety to keep their management role as from their declared outrage at spending cuts, though the latter could also bring doctors on to the streets later if they judge health spending restraints too harsh.

The fragmented, quasi-private nature of French social security system stems from the fact that like Germany's and in contrast to Britain's, it grew out of a series of initiatives by unions and employers, the benefits of which were "generalised" to the whole population in 1945. In only one area have unions and employers successfully exercised real power, and this is the Unedic unemployment insurance scheme, created in 1953. Two years ago, they raised contributions and cut payments, with the result that alone of the welfare funds, Unedic is this year in the black, to the tune of FF120bn.

But the state had to help even with Unedic. Increasingly, governments have intervened even to dictate payroll contributions. The latter still provide 80 per cent of welfare funding, which, however, will now depend more on taxation, set directly by governments and MPs rather than unelected "social partners".

Balladur, former prime minister and the Mr Chirac's Gaullist rival for the presidency, warned that tax increases should be used only to fund the accumulated deficit. In an article in the daily *Le Monde*, he said the system must be balanced by spending cuts and economy measures.

Officials declined to confirm the nature of the tax increase, but it appeared likely to take the form of a broadening or rise in the CSG tax on income, or the creation of a similar special levy. Other measures may include higher payroll taxes to fund state pensions, larger contributions from pensioners to the welfare system and tight cuts on health spending.

The prospect of higher taxes has added to concerns about the slowing economy, which has seen a sharp fall in consumer spending in recent months and rising unemployment in August and September.

## Healing France's running sore

**Proposals are due this week to save the welfare system from bankruptcy, writes David Buchanan**

The main instrument is the *contribution sociale généralisée* (CSG). Introduced in 1991 by the Socialists to hoots of conservative protest, it has already been raised twice by Gaullists in the past two years, and Mr Juppé is expected to announce another version of it this week to repay the FF120bn welfare debt backlog.

Balladur's resort to the CSG is not surprising. Levied on virtually all types of revenue, it brings in pro rata far more than income tax or social charges which are themselves to be reformed next year.

The funding shift from payroll levies to the central state budget has so far been most marked for family allowances. France's traditionally lavish incentives to encourage breeding to make up for its war dead. This is logical, since the scheme fits less into the "insurance" rationale of other welfare funds. This year the state took over FF120bn of family allowances from companies, who however still shoulder FF130bn a year. Nonetheless, the family allowances fund is FF130bn in the red this year, and to close this Mr Juppé may make allowances taxable or means-tested.

This year will also show a FF140bn shortfall on the general state pension scheme, even though this covers only a third of the population and excludes special state-set pension plans for civil servants, public sector workers, farmers, miners, artisans, some liberal professions, even dancers for the Paris Opéra. One quick, and unpopular, solution would be to raise the retirement age from 60, which, along with Italy's, is the lowest in the EU. Preferring to achieve the same aim by stealth, the Balladur government lengthened the period of contributions to the general pension fund from 37.5 to 40 years (by the year 2000), and Mr Juppé is now contenting requiring the same of civil servants.

But the big problem, and test, comes with the medical insurance system, sagging under the effort to fund Europe's most extravagant health service with a FF150bn deficit this year. France spends nearly 10 per cent of GDP on health, because it combines US-style freedom for patients to shop around among doctors who can prescribe what they like, with a level of state reimbursement for care that approaches the UK's.

Mr Juppé is likely to have to apply multiple remedies to this running sore in his public finances - higher daily hospital charges, increased health insurance contributions from pensioners, and maybe even restrictions on patients and doctors' freedom of choice. Reform may be easier now that he has got rid of his former health minister, Mrs Elisabeth Hubert, who found it hard to forget that she was also a doctor. But France's 140,000 doctors still have clout, occupying 10 per cent of the National Assembly's seats.

## EUROPEAN NEWS DIGEST

## Vienna mobile phone doubts

The Austrian government's tender offer for a licence to operate a second GSM mobile telephone system in the country has been thrown in doubt at the last minute by a report that the post and telecoms minister, Mr Viktor Klima, wants to exclude energy utilities from the final selection process.

An Austrian newspaper reported that Mr Klima said at the weekend that it would be wrong to award the licence to a consortium including utilities because of the danger that consumers would subsidise these companies' GSM investments.

One of the six consortia bidding for the licence is dominated by nine Austrian energy utility companies.

Mr Klima's office would not comment on the report. Mr

Rudolf Gruber, chief executive of EVN, a gas and electricity utility and leader of one of the bidding consortia, said his group would take legal action if it seemed the award was influenced by Mr Klima's view. The licence to compete with the Austrian PTT in the fast growing GSM field is expected to be awarded early in December.

Tom Rodger, Vienna

## Iberia pilots issue ultimatum

Pilots at Iberia, the state-owned Spanish airline, have announced further strike action later this month and are threatening more stoppages in December unless the company agrees to new talks to discuss its future.

Yesterday they embarked on a two-day strike, forcing the airline to cancel more than 60 per cent of its flights. The pilots blame the company for failing to fulfil its side of a cost-cutting deal reached last December. The deal was pegged to a FF120bn (900m) injection of state aid which is still being negotiated with the European Commission.

The pilots plan further strikes on November 23-24 and November 28-29 after starting a series of strikes earlier this month. They have given the company 10 days to begin talks.

Iberia ground staff are, meanwhile, planning a protest march from Madrid's Barajas airport to the city centre today. The airline has warned that the disputes could bankrupt the company.

David White, Madrid

## German court delays Krenz trial

East Germany's last hardline communist leader, Egon Krenz (above, right) and former party ideologist, Kurt Hager, speaking in a court in Berlin which yesterday postponed their trial over the deaths of people shot by East German border guards.

Defence lawyers claimed that three of the five judges had effectively prejudged the case by agreeing last week to upgrade the charges against Mr Krenz and five former politburo colleagues who are also on trial.

The judges decided to allow a week's postponement of the trial - where the six men face a total of 47 manslaughter charges and 24 of attempted manslaughter - to allow the objections to be examined.

Reuter, Berlin

## Headhunting is boom business

Headhunting, the business of finding suitable executives for companies, is now a \$1bn (660m) business across Europe and growing by as much as 20 per cent a year worldwide, according to a report\* published today by the Economist Intelligence Unit.

It says that Europe now has a quarter of the worldwide industry valued at between \$3.5bn to \$4bn. The top 20 firms earned a net revenue in Europe of \$580m. Growth in 1994, which saw an average revenue increase of 21 per cent among the top 20, is continuing in 1995, said the report. Egon Zehnder, the European market leader, had revenues of \$76.8m in 1994.

The main growth area at the top end of the market, said the report, was in supplying an increasing demand for non-executive board directors.

\*Executive Search in Europe: choosing and using a headhunter, Economist Intelligence Unit, 15 Regent Street, London SW1 4BY, tel 0171 830 1007, £149

## Russian supersonic jets planned

Russia wants to use technology developed for cold war fighter aircraft to build the world's first supersonic executive jet, aviation officials said yesterday.

Mr Vladimir Yakovlev, spokesman for the Sukhoi design bureau, said the S-21 would carry six or 10 passengers at speeds of up to twice the speed of sound - 2,125kph. It would have a range of 7,400km.

The larger S-51, with a range of up to 9,200km, could carry 68 passengers. Mr Yakovlev, whose Sukhoi bureau was a top-secret installation in Soviet days, said the aircraft would use technology from the Su-27 fighter jet in both new craft.

Mr Yakovlev said Sukhoi was already testing a model of the S-21, but it would take five or seven years to develop a working aircraft.

Reuter, Moscow

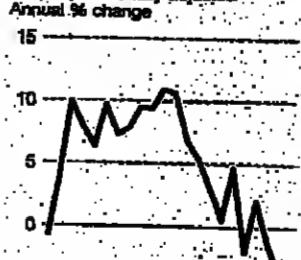
## ECONOMIC WATCH

### German industrial orders rise

## German industrial orders

Volume, seasonally adjusted

Annual % change



Source: Destatis

September by 13.2 per cent in reaction to an exceptional 22.8 per cent jump in August when a number of large contracts were agreed. Taking the most recent two months together, pan-German orders declined by 1.5 per cent compared with June and July and were 2.9 per cent lower than in August and September last year. Mr Richard Reid, chief economist of Union Bank of Switzerland in Frankfurt, noted that the all-German order inflow, although weak, was stronger than manufacturing output, which fell by 2 per cent in September. This suggested that companies were now trying to reduce inventories.

Peter Norman, Bonn

■ Spain's jobless rate was 15.41 per cent in October, up from 15.32 per cent in September. Producer prices rose 0.3 per cent in September from August and 6.6 per cent from a year earlier.

■ Norway's trade balance for October showed a surplus of Nkr3.65bn (£365m), down 36 per cent from a year earlier but the same as last month.

*Best Long-Haul carrier '95*

*Best Carrier to the Middle East and Best Long Haul Carrier '95 by Executive Travel Magazine.*

**Emirates**

THE FINEST IN THE SKY

Good news: Emirates now serves Dubai 21 times a week from London and 5 times a week from Manchester, with good connections to over 20 cities in the Middle East and beyond.

Better news: you'll be choosing the airline voted Best Carrier to the Middle East and Best Long Haul Carrier '95 by Executive Travel Magazine.

Emirates

THE FINEST IN THE SKY

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## EU aims for bus seat belt law

By Caroline Southey  
In Brussels

Deep divisions among EU member states over proposed Union-wide seat belt laws for coaches and buses could scupper fresh efforts this week to settle the four-year-old impasse over more stringent safety standards.

There are currently no rules requiring coaches to have seat belts fitted, and a group of northern EU member states - led by Britain, where there have been a number of serious coach crashes - have been demanding tighter safety regulation.

A clutch of southern member states are holding out against this pressure. Individual states have complained that their efforts to compel coach companies to improve safety have been frustrated by failure to agree common standards.

The latest proposals - which involve updating existing legislation and can therefore be adopted by the Commission on the basis of qualified majority voting by member states - cover new standards for seat belts, seat belt anchorages and the strength of seats in buses and coaches.

The proposed directives would be optional for vehicle

builders, which could choose between applying for EU-type approval or sticking with national standards in each country where vehicles are to be sold. But by applying national standards manufacturers would risk losing export market opportunities. "The benefit of EU-type approval means a manufacturer can have access to all EU markets," an industry specialist said.

Member states may decide to adopt different national standards but are obliged to grant free access to vehicles which comply with the EU seat belt rules.

The proposals include installation of two-point (or lap) belts in all seats on large coaches, defined as those over five tonnes and with more than nine seats. Coaches would also have to install energy absorbing seats.

Urban buses will be exempt from all the provisions.

The changes are expected to add only marginally to production costs since a many bigger manufacturers already have the flexibility to produce vehicles which meet the proposed regulations.

In seats where passengers are considered more vulnerable, such as facing a partition or table, three-point belts (including a strap across the shoulder) will be required.

For minibuses up to 3.5 tonnes, three-point belts would be obligatory. Mini-buses between 3.5 and 5 tonnes would have the option of three-point belts, or two-point

## Shell's UK staff lose out in job cuts

By David Lasclefes, Resources Editor

Employees at Royal Dutch Shell's London headquarters are to receive much smaller redundancy packages than their Dutch colleagues under the group's job-cutting scheme.

Spain, Italy and France continue to oppose the changes on the grounds that they will impose unnecessary cost burdens on the industry.

The issue could be referred to EU ministers if the three countries block a decision this week.

## Emu blueprint set to follow German line

By Wolfgang Münchau  
in Frankfurt

The European Commission yesterday gave a cautious welcome to a German-led plan to reinforce budgetary discipline among countries which join the planned European monetary union, writes Lionel Barber in Brussels.

Mr Jacques Santer, president, and Mr Yves-Thibault de Silguy, monetary affairs commissioner, noted pointedly assurances from German finance minister Theo Waigel that his proposals for a post-Emu "stability" pact did not challenge the Maastricht treaty legally or economically.

The two commissioners also pointed to existing treaty measures which can impose financial sanctions on Emu members running excessive budget deficits.

According to briefings for workers could receive "leaving packages" worth over twice as much as those paid to British staff employed in identical positions.

The differences, caused by The Netherlands' more generous statutory severance rules, apply to workers who take voluntary severance as well as those who will be made compulsorily redundant.

The proposals highlight the gap between the UK, where the government has made a virtue of the lower labour costs resulting from its decision to opt out of the EU's Social Chapter, and the Netherlands which participates fully in EU labour policy.

The terms are part of the drive launched by Shell last March to slim down its corporate headquarters which is split between London and The Hague. The cuts will involve the loss of 1,200 out of 3,900 jobs, and are designed to achieve group-wide savings of \$300m (£189.8m) a year.

London staff who leave voluntarily will receive a lump sum based on a combination of salary and years of service. Dutch staff will receive a similar sum, but will get an additional 12 months' salary, with a minimum of £26,000.

Staff in London who are made redundant will receive between six and nine months' salary. Those in The Hague are being offered 12 months' full salary plus eight months at 85 per cent and four months at 70 per cent, which works out at over 21 months' salary.

Shell stressed that the differences resulted from differing state welfare practices. Shell would also pay unemployment benefits that Dutch staff who leave early have to forego in certain circumstances.

Mr Tietmeyer yesterday alighted irritation about the pace at which the Emu had arrived. He also called for the monetary policy of a future European central bank to be run on lines similar to those operated by the Bundesbank, with a strong emphasis on subsidiarity, limited use of open market operations and a money supply target. These detailed issues will not be part of today's Emu report, and are not due to be tackled yet.

Mr Tietmeyer said that with

## Oil hopes bubble up in south Italy

Andrew Hill visits the Val d'Agri, site of what may turn out to be Europe's largest onshore field

Other parts of Italy can offer tourists finer Roman remains, better skiing, and grander scenery than the Val d'Agri in the southern Apennines. But this is a region attracting an increasing amount of attention from a different type of visitor: men in hard hats and helicopters who believe the pretty Val d'Agri and the surrounding area could be sitting on top of Europe's largest onshore oil field.

If you look carefully, you can spot drilling rigs in improbable places, such as halfway up the side of a wooded mountain, but there is little evidence of a Texan-style oil rush.

One reason may be that this part of Basilicata, between Salerno on the west coast, and Taranto inside the heel of Italy, was already well-known as an area rich in hydrocarbons - gas rather than oil.

Agip, the state-owned Italian oil company which is part of the Eni group, has been active in the area for several years.

Many Italian and international companies have stakes in the area, but Agip's main partner is Enterprise Oil of the UK.

Enterprise already has a large share of several exploration, appraisal and development wells in the area, as well as the fledgling oil centre,

which processes the crude oil for transport to refineries. As main operator, Enterprise will begin drilling its own exploration well around the end of this year, with the backing of Fina of Belgium, Mobil of the US and Union Texas Petroleum.

Just how promising the region is depends on who is talking. Geologists estimate that there could be between 2bn and 5bn barrels of light oil in place - the oil industry jargon for the total amount of oil under ground, only a part of which is ever recoverable. For comparison, the Ninian field - the third or fourth largest in the North Sea - had 2.5bn barrels of light oil in place when discovered.

A year ago, Mr Guglielmo Moscato, Agip's chairman, told a conference that exploitation of the Val d'Agri pool could double Italy's annual oil production to about 75m barrels a year.

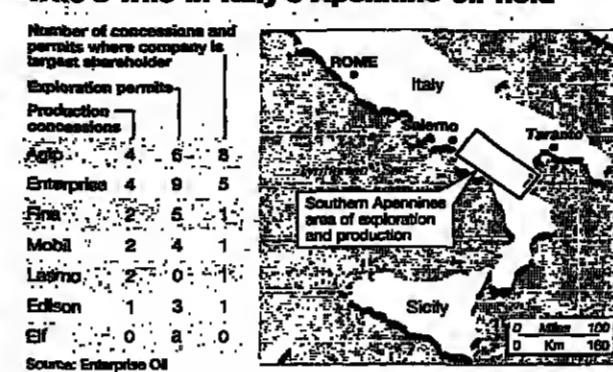
Agip may not want to crow too much about this discovery, however, in case it encourages Italy's tax authorities to impose a special levy on oil revenue, upsets environmentalists, or feeds to local agitation for a share of the oil bonanza.

In any case, US stock exchange restrictions prevent Eni, Agip's parent company, talking in detail about the field's potential until after its partial privatisation later this month.

A well in the same area is sinking another well in the same area at a rate of only 2m per hour - half the speed of drilling in the North Sea - and will have to drill horizontally in an attempt to recover more oil from the reserves. The company's representative, a veteran of Agip's Chinese operations, says it is the slowest well he has ever drilled.

"The cost of the wells is probably fairly comparable with the North Sea wells,"

### Who's who in Italy's Apennine oil field



because they are also quite deep," says Mr Simon Oddie, who heads Enterprise's Italian activities.

"But we would expect the cost of facilities and the cost of pipeline to be somewhat cheaper here, simply because you don't have to build platforms and the costs are shared among other participants."

The southern Apennines are no longer simply the object of geological speculation, however. Agip and its partners are investing nearly £1,000m in drilling and improving the infrastructure for a field which, until recently, has produced only an experimental 5,000 barrels a day. By the end of 1997, Agip aims to have extended the existing oil centre to handle 45,000 b/d. The next phase will take the centre's capacity up to 83,000 b/d by 1999, with the flexibility to expand still further.

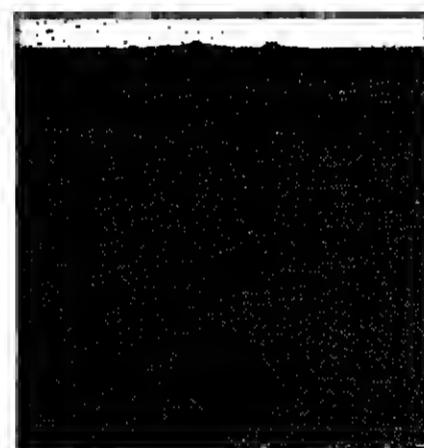
The same companies are pushing through plans for a 145km pipeline linking the Val d'Agri with Taranto's refineries, and with the capacity to handle up to 200,000 b/d - twice Italy's entire production of oil at the moment.

The discoveries seem unlikely to change the Val d'Agri much. This is one of Italy's poorer regions, but although the task of improving local infrastructure will create temporary construction jobs, most of the oil expertise will continue to be imported.

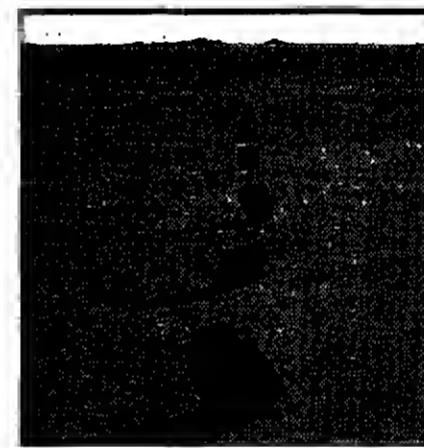
Once the drilling rigs are dismantled and full commercial production begins there will not even be much surface evidence of the prospectors' efforts. The region will continue to rely on tourism, light industry and agriculture, while the oil companies siphon Basilicata's richest resource out from under the mountains.



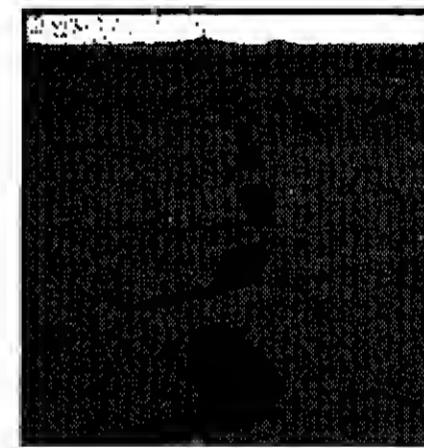
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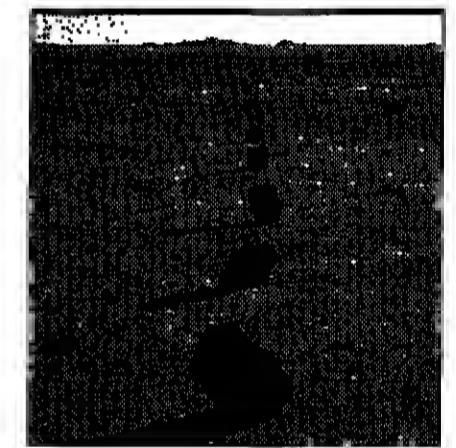
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1990



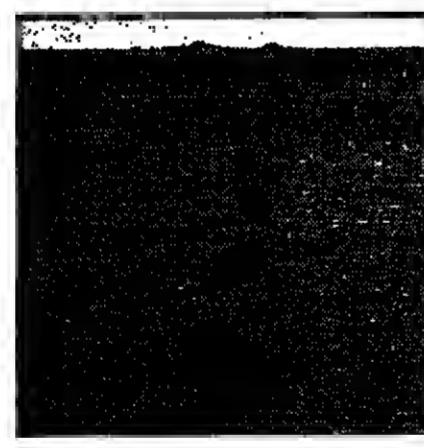
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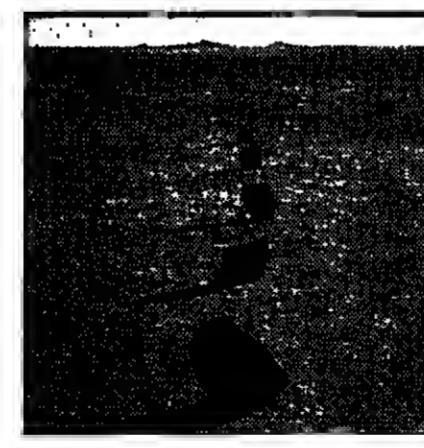
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## NEWS: EUROPE

# Polish candidates trade tax insults

By Christopher Bobinski  
in Warsaw

The Polish presidential campaign is turning increasingly venomous, with the staff of both candidates trading charges about personal wealth and tax avoidance ahead of Sunday's runoff.

Mr Lech Wałęsa, the incumbent and former Solidarity leader, is desperate to close the two-point lead notched up by Mr Alexander Kwasniewski, the leader of the former communist Left Democratic Alliance (SLD), in the first round on November 5.

Mr Kwasniewski, who won 35 per cent of the vote in the first round, has been under attack for having neglected to declare to parliament his wife's large share investment in an insurance company. Under Polish anti-corruption laws MPs are required to file a list of their assets with the speaker of parliament.

Yesterday Mr Kwasniewski called a press conference to reveal details of all the assets of himself and his wife, Jolanta, a successful real estate agent. He also allowed journalists to examine receipts

from the tax office which he said proved that all due taxes had been paid.

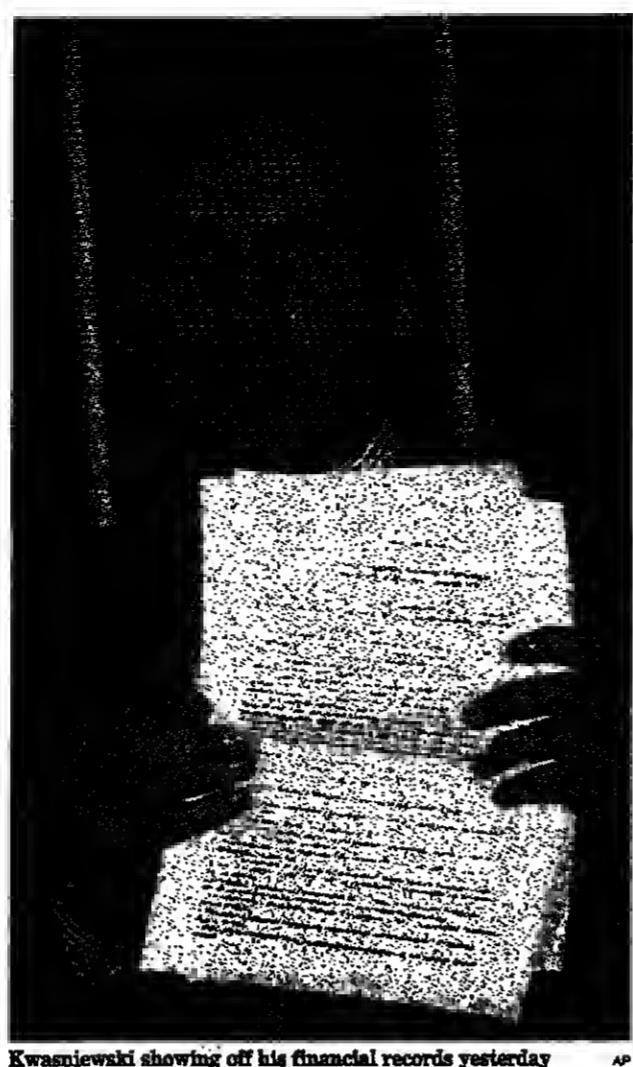
At the same time, his campaign managers moved on to the offensive, challenging Mr Wałęsa to prove that he had paid tax on a \$1m payment he had received in 1989 from Warner Bros, the US film maker, for the rights to a film about himself and the Solidarity movement, which was never made.

"I am almost a bankrupt," Mr Wałęsa said at a press conference last week when he revealed that his wife and family had since spent at least half the money. His campaign later claimed that President Wałęsa's net worth now amounted to \$300,000 and that all due taxes had been paid.

Mr Wałęsa, appealing to the supporters of his losing right-wing rival in the first round, repeatedly returned to the theme that these responsible for the crimes of communism had first to be brought to book.

Mr Wałęsa warned that if he lost then his supporters would move onto the offensive to "settle accounts" with the communists.

Mr Kwasniewski argued that the western democracies would accept him. "I am convinced that Poland can become a member of Nato with Kwasniewski as president," he said, referring to Mr Wałęsa's warning to voters.



Kwasniewski showing off his financial records yesterday

# Russian election in hands of judges

By John Thornhill in Moscow

Russia's Constitutional Court will today initiate a review of the country's electoral laws amid an increasingly heated dispute over whether to postpone next month's parliamentary poll.

Both the Supreme Court and a group of parliamentary deputies have asked the Constitutional Court to examine several alleged flaws in the electoral laws which, they claim, could undermine the legitimacy of the elections. There was no indication yesterday how long the review would take.

Some parliamentarians fear legal ambiguities could result in President Yeltsin dissolving a hostile parliament for "technical" reasons after the elections - as happened in Kazakhstan earlier this year.

Anti-government communists and nationalists, bitterly critical of President Yeltsin's administration, are expected to do particularly well in the

elections scheduled for December 17. Other parliamentary leaders have been stepping up demands for the elections to take place as planned - despite the controversy over the electoral law. Mr Mikhail Lapsin, leader of the liberal Russia's Choice faction, said last week.

The rows over the parliamentary elections could be a small foretaste of controversies to come over the more important presidential elections, now

likely to be held on June 16. Mr Yeltsin's entourage appears to be gearing up for his re-election campaign despite concerns about his health. The presidential press service has been issuing a stream of reports about the president's working routine in hospital, saying his schedule is "the same as if he were in the Kremlin".

The presidential aides also firmly repudiated recent comments from Mr

Victor Chernomyrdin, the prime minister, suggesting he was assuming more responsibility over the defence, interior, security and foreign affairs ministries.

According to the presidential press service, Mr Yeltsin is in full command and even found time last week to update Mr Yury Lashkov, Moscow's mayor, for failing to clear the snow from city streets.

General Pavel Grachev, the defence minister who met Mr Yeltsin last week, claimed Mr Yeltsin was even reviving plans for a trip to China which had been postponed earlier because of his illness.

A recent survey by the Centre for Strategic Analysis and Forecasting suggested that Mr Yeltsin and Mr Chernomyrdin were the most popular presidential candidates, followed by Mr Alexander Lebed, the former army general, and Mr Grigory Yavlinsky, the

leader of the liberal Yabloko party.

# Dasa cuts spread gloom in Bremen

Wolfgang Münchau reports on how the city is fearing for its aerospace tradition

Plans announced by Daimler-Benz Aerospace (Dasa) to get rid of almost 5,000 German workers as part of a restructuring programme will affect regions where unemployment is already high. One of the hardest hit will be the Hanseatic city of Bremen.

Bremen was once a wealthy trading and industrial town and a important hub for the aerospace industry in pre-war Germany.

Today, unemployment in Germany's smallest state stands at 14 per cent, an average rate of unemployment in eastern Germany.

At its Bremen Airbus operations, Dasa plans to cut the workforce from 2,878 to 1,600 staff, as part of the programme also known as Dolores (Dollar-low rescue).

The Dolores programme, under discussion for some time but approved last month, is the company's plan for securing its future in a world assuming a permanent low dollar.

Most of its competitors are American and commercial aircraft sales are in dollars.

"We don't trust them at all," said Mr Uwe Neuhaus, employee representative for Bremen's Airbus workers, in reference to Dasa's management.

"The ink was hardly dry on so many of the [labour] contracts we signed when the contract became worthless. Even Dolores may not be the end of the story."

"They may in the end give up on us completely," he said.

His fear reflects anxieties that further European integration in the aerospace industry will require more job cuts, and that Dolores marks only one stage in a process of gradual industrial death.

The details of the Dolores programme are subject to negotiations between management and workers, with a final decision due next Monday.

It is quite likely that Dasa

employees will call for industrial action. This would be an unusual response in an industry not known for its labour strife.

Mrs Ingrid Lillmann, head of Dasa's employee representatives, said that Dolores is not a mere restructuring programme, but a consequence of management error.

"If you consider what these highly-paid managers achieved over the last years, one could

We have worked our butts off. We have not clocked every hour we worked. We have not asked for overtime pay. And now we are fired?

have expected more. They don't pay for their errors. We do," said Mrs Lillmann.

Referring to the 1993 acquisition of Fokker, the Dutch aircraft maker which has remained a loss-maker, she said: "It was a significant strategic mistake trying to become the world number one in regional aircraft."

Mrs Lillmann said that she considered it unforgivable that the Dasa management had failed to see that Fokker was fundamentally "miserable" as a company.

Mrs Lillmann said the industry had been in a mode of retrenchment since the 1970s, but the fundamental difference between now and then was that employees have lost their morale.

"I remember that the employees did not get into this business just to make money. They were here out of conviction.

"They were pioneers again. The position that the German

employees believe that the consequences of the programme could be a gradual erosion of the industry.

Germany lost its aerospace industry at the end of the second world war, it was then reinvented. Workers feel they are now in danger of losing it again.

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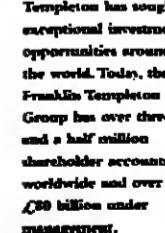
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Jeff Wiles

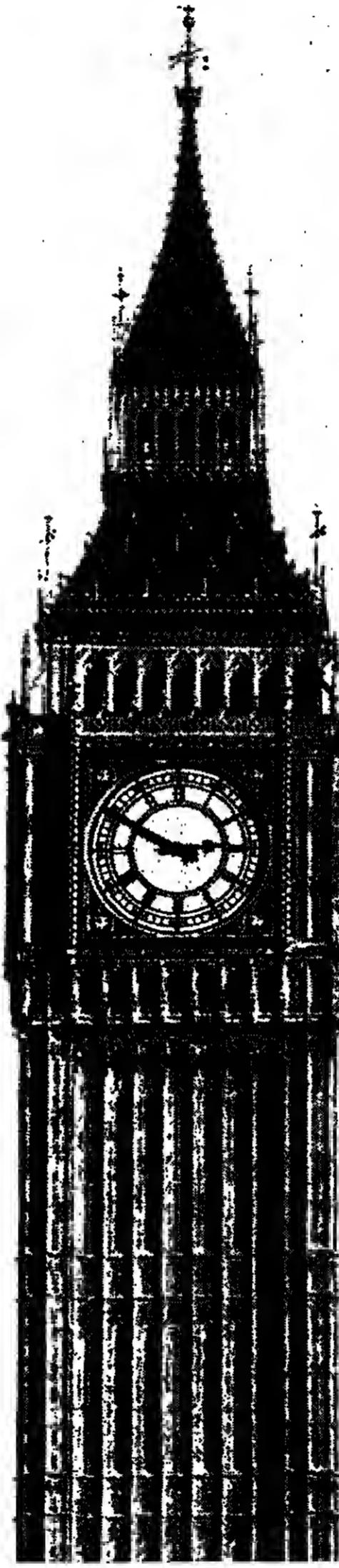


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## NEWS: WORLD TRADE

## Private finance urged for E Europe

By Frances Williams in Geneva

A fresh attempt to revive interest in the private financing of big infrastructure projects in eastern Europe was launched yesterday at a United Nations-sponsored seminar in Geneva attended by representatives of governments, industry and financing agencies.

The UN Economic Commission for Europe, the seminar organisers, said eastern Europe and the former Soviet Union were desperately in need of funds to update obsolete and crumbling infrastructure.

The economies of the region had "few, if any, real alternatives" to private financing arrangements for infrastructure projects if they were to meet their development goals, according to Ms Carol Cosgrove-Sacks, director of the ECE's trade division.

However, hopes of build-operate-transfer (BOT) schemes and other means of attracting private sector finance to improve transport, telecommunications, energy and water systems were disappointed.

Since the downfall of communism in 1989, the ECE notes, only a dozen or so big projects have got off the ground, half of them in Hungary and Poland.

The seminar was expected to recommend drafting common guidelines on new project financing techniques and on the fair treatment of international investors by host governments.

Mr Wayne McArdle of the European Bank for Reconstruction and Development, which has been actively involved in financing infrastructure investment in eastern Europe, said that the absence of a legal framework was the single most important obstacle to private sector involvement.

"What is lacking is the entire legal basis for the assumptions used by the financial people," he said. These included enforceable contracts, assured property rights, principles of business formation and guarantees against government interference in private sector business operations.

## Tokyo fails to ease Apec farm row

By William Dawkins in Tokyo

Japan yesterday failed to resolve a farm trade row between Pacific rim governments when the wording of a compromise draft trade document was rejected by some delegations.

"Japan wants broad wording to be used in the (contentious) phrase in the agreement, but there are countries still opposed to it," a Japanese government official said after the meeting of officials of the Asia Pacific Economic Co-operation forum in Osaka.

Japanese news reports said

Tokyo proposed toning down the wording of a phrase in the original draft designed to allow members to protect "specific sectors", in this case meaning trade in farm products. But some delegates said the changes did not go far enough and more negotiations were needed.

Japan wishes to accommodate its own rice farmers, as well as farmers in China, South Korea and Taiwan, who are unwilling to submit to a guarantee to open their markets by the Apec deadline.

Japan's attempts to protect its politically sensitive farm trade

triggered a row with Apec's major food exporters, including the US and Australia.

"There's been plenty of talk about what to include in a draft for the ministers. But since the last draft came out on October 24, we don't think there's been a change in Japan's stance," said a source in Japan's stance.

The Japanese compromise

aimed to allow flexible treatment for sensitive industries, like Asian farming, without disrupting Apec's grand plan to eliminate all trade barriers by 2020. Opponents of the Japa-

nese draft argued that enshrining special consideration for sensitive sectors would risk unravelling Apec, since all member economies are arguing that the group's credibility hangs on the outcome of the summit.

Officials will continue discussing the Japanese plan today, in an attempt to agree or at least pave the way for agreement by the time Apec trade and foreign ministers begin a crucial two-day annual meeting on Thursday, followed by a summit of Apec heads of government on Sunday.

The summit aims to be approved by Apec trade and foreign ministers, then signed by leaders at their summit.

plans to achieve the sweeping free trade plan which leaders agreed last year. Some of its members are arguing that the group's credibility hangs on the outcome of the summit.

Leaders of the 18-member grouping, which accounts for nearly half the world's trade, pledged last year at Bogor, Indonesia, that developed economies in the forum would remove trade and investment barriers by 2010 and developing nations by 2020.

The agenda must be approved by Apec trade and foreign ministers, then signed by leaders at their summit.

### WORLD TRADE NEWS DIGEST

## EU pushes on with trade deal

European Union officials are pushing ahead with a deal to compensate the bloc's trading partners, primarily the US, for the accession of Finland, Austria and Sweden last January. The European Commission "has put together a great deal, but it has been met by complaints (from member states)... We now have to persuade them that it is the best deal we will get," a trade official said.

Most aspects of the US compensation plan, which is being used as a blueprint for concessions to be offered in Geneva to the EU's other trading partners, have been effectively agreed. However, problems remain on farm trade, notably rice, Italy, Spain, Portugal and Greece are worried about the planned concessions, especially a cumulative recovery system to reclaim overpaid duties on US rice imports. *Foreign staff*

### Germans sign Chinese pacts

German companies yesterday signed 12 contracts, letters of intent and other agreements with China which officials estimated at DM200m (230m). The contracts covered space technology, shipbuilding, the power industry, vehicles and telecommunications.

Accompanied by 45 top business leaders, Mr Helmut Kohl, German Chancellor, arrived in Beijing on Sunday for a five-day visit, his fourth to China since taking office 13 years ago. It is the latest in a flurry of visits between China and its biggest trade partner in Europe. Among the deals, China and Germany signed four agreements, including one to set up a high-technology forum. *Reuter, Beijing*

### Sega in California link-up

Sega Enterprises and CSK of Japan will form a joint venture by the end of November in the US to research and develop interactive software for use in multimedia personal computers (PCs) and video games, they said yesterday.

The new company, Sega Soft, to be based in Redwood City, California, will be owned mainly by the two companies. The capital or other possible partners have not been decided, the companies added. The new company will start operations in December. Sega is 20 per cent owned by CSK, a large software maker.

Sega Soft will develop home-use application software for interactive entertainment, education and other areas, for use in 32-bit Sega Saturn and other Sega-made video game machines, and software for the Internet and multimedia PCs. Sega Soft will create 50 jobs and Sega a existing US unit, Sega of America, will second an additional 200 software engineers to Sega Soft. *Reuter, Tokyo*

### Contracts and Ventures

■ Siemens, the German electronics group, has won an order from Thailand for telephone equipment worth over DM400m (412m). The order from Thai network operator Telecom Asia is to install 500,000 telephone lines in and around Bangkok. The order brings the total number of telephone lines installed by Siemens in Thailand to 3.2m. *Reuter, Munich*

■ Samsung Heavy Industries, a shipbuilding arm of Samsung Group of South Korea, has won a \$322.35m (225m) order to build seven container vessels for China Ocean Shipping (Cosco). Delivery is set for between late 1997 and early 1998. This is the first big order Cosco has placed with a Korean shipbuilder. Samsung said. *Reuter, Seoul*

■ Bombardier, the Canadian aerospace and transit equipment group, said its Eurorail unit will make 40 low-floor light rail vehicles worth C\$115m (55.2m) for Cologne city. Delivery will be in 1996-97. The bodies will be built in Vienna, the bogies in Belgium and final assembly will be in Bruges. Eurorail has already completed an initial 40 vehicles for Cologne. *Robert Gibbons, Montreal*

■ Ingersoll-Rand has won an order worth more than HK\$6m (€420,000) to supply road paving equipment for surfacing work on the first of the runways at the new Hong Kong Airport at Chek Lap Kok. *Andrew Taylor, Construction Correspondent*

■ Shimadzu, the Japanese precision equipment maker, plans an A\$15m (7.7m) expansion of its operations in the Australian state of Victoria. Shimadzu, which makes medical components for medical and scientific instruments at its Melbourne plant, would build a new plant to assemble them into finished products, including X-ray imaging and blood chemical analysers. The new plant is expected to be in operation by October next year. *Nicki Tai, Sydney*

### OECD Export Credit Rates

The Organisation for Economic Co-operation and Development announced new minimum interest rates (%) for officially supported export credits for November 15 1995 to December 14 1995 (October 15 1995 to November 14 1995 in brackets).

	D-Mark	6.71 (6.91)	Yen	2.60 (2.99)
East	7.49 (7.44)	Pesos	11.54 (11.55)	
French Franc	7.95 (7.77)	Sterling	8.61 (8.52)	
Guidelines		Swiss Franc	5.22 (5.45)	
up to 5 years	6.40 (6.59)	US dollars for credits	8.77 (8.99)	
5 to 8 years	7.00 (7.16)	up to 5 years	8.77 (8.99)	
more than 8.5 years	7.85 (8.00)	5 to 6.5 years	6.98 (7.09)	
Russian Ruble	10.01 (10.75)	more than 6.5 years	6.97 (7.13)	

Rates are published monthly by the Financial Times, in the middle of the month. A premium of 0.2 per cent is to be added to the credit rate when today's or bill rates may not be used for more than 120 days. OECD-based rates are the same for all currencies. From July 15 to August 21, 1995, the SDF-based rate will be 6.00 per cent. The SDF-based rate was abolished August 21, 1995.

### INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

	UNITED STATES	JAPAN	GERMANY
Total sales volume	100.0	100.0	100.0
Industrial production	100.0	100.0	100.0
Unemployment rate	7.1	7.1	7.1
Vacancy rate indicator	91.3	95.9	88.7
Composite leading indicator	2.6	2.6	2.6

1985	100.0	100.0	100.0
1986	105.3	109.9	104.7
1987	108.4	100.0	107.4
1988	112.6	110.7	102.6
1989	115.3	112.4	110.3
1990	110.4	114.0	108.3
1991	117.8	114.1	114.2
1992	123.8	116.8	114.2
1993	131.2	125.1	114.2
1994	132.0	125.5	113.9

4th qtr. 1994	5.7	6.0	6.0
1st qtr. 1995	4.7	5.5	5.7
2nd qtr. 1995	4.3	3.4	3.1
3rd qtr. 1995	4.3	3.0	2.9
4th qtr. 1995	5.7	6.0	6.0

October 1994	6.1	5.8	5.8
November	5.0	5.5	5.5
December	4.8	5.1	5.2
January 1995	8.7	5.4	5.4
February	3.6	5.8	5.8
March	3.4	4.6	4.6
April	3.3	5.7	5.7
May	4.6	5.4	5.4
June	4.9	2.9	2.9
July	4.9	2.8	2.8
August	4.3	3.2	3.2
September	4.3	3.0	2.9

4th qtr. 1994	1.5	5.5	5.5
1st qtr. 1995	0.5	5.5	5.5
2nd qtr. 1995	1.1	3.3	3.3
3rd qtr. 1995	0.9	2.8	2.8
4th qtr. 1995	1.5	5.5	5.5

October 1994	1.5	5.5	5.5
November	0.5	5.0	5.0
December	0.3	5.0	5.0
January 1995	2.4	5.8	5

## Government shutdown hits trade talks

By Nancy Dunne  
in Washington

The US Trade Representative's Office yesterday said some negotiations could be delayed as the US government shuts down as a result of President Bill Clinton's struggle with Congress over the budget.

As the government headed towards a midnight shutdown of all but the most essential services yesterday, the trade office was preparing to suspend 75 to 80 per cent of its 150 employees.

Altogether, about 800,000 federal workers are to be suspended without pay as government grinds to a halt for lack of funds. 150,000 workers in the Washington area alone.

Officials who work will eventually get paid, but their salaries will be delayed. Those laid off cannot be assured of a salary cheque for the days they miss. That will be up to Congress, which has shown itself to be particularly unsympathetic to the federal bureaucracy.

The trade office prides itself on being a lean and flexible negotiating team. Most are professional rather than support staff.

Telephones usually are answered by voice mail while internal communications are conducted through electronic messaging. Most secretaries assist six or seven bosses and rely heavily on the free manpower provided from nearby universities.

The personnel office yesterday was sorting through ongoing negotiations to determine

what could be speeded up or delayed. Mr Mickey Kantor, the US trade representative, was in Tokyo for the Asia Pacific Economic Forum, which was deemed to be an "essential" government business.

He was accompanied by his customary retinue, which is tiny in comparison with the team generally fielded by Japan. This time, however, the Americans were expected to face the added embarrassment of jokes about who would pay hotel bills.

Negotiators, deprived of their usual support staff, are all also carrying laptop computers on which they will be expected to type their own notes for transmission to Washington.

Also scheduled this week were US negotiations with the European Union over compensation for duty increases incurred by the most recent enlargement of the EU.

Progress has been steady, but a year-end deadline looms.

The US trade office was considering a one-day limit on negotiations this week with further talks to be conducted by telephone only.

No decision had yet been made about US participation in talks this week in the World Trade Organisation in Geneva.

"Where we have an ongoing negotiation in another country where commitments have been made, we will try to honour those commitments," a senior trade office official said, "but we will keep as few people as necessary to get the government's work done."

## Fujimori-backed candidates lose in local polls

By Sally Bowen in Lima

Results from Sunday's municipal election have revealed a crack in the authority wielded by Peru's President Alberto Fujimori. For the first time in six nationwide elections since 1990, the principal candidates backed by Mr Fujimori were defeated.

Lacking a genuine party structure, the ruling Cambio 90/Nueva Mayoria alliance concentrated its efforts on the two main constituencies. However, Mr Jaime Yoshiyama, Peru's former vice-president, was defeated by some 8 percentage points in the race for mayor of Lima by an independent, Mr Alberto Andrade.

In Callao, the capital's port, the official candidate and sitting mayor was trounced by a 25-point margin.

Popular rejection of his chosen candidate in Lima, home to a third of Peru's voters, looked a bitter pill for Mr Fujimori. He has devoted the past weeks to intensive appearances in Lima's shanty towns, inaugurating schools and stretches of road while simultaneously promoting Mr Yoshiyama. He pledged "total support" - this became the campaign slogan - if Mr Yoshiyama won. Mr Andrade, by implication, would find central government funding harder to come by.

Mr Andrade, mayor of the middle-class suburb of Miraflores since 1988, hung on to his early lead, capitalising on a well-deserved local reputation for efficiency and lack of overt opposition to the Fujimori regime.

Analysts point to two new features of this most recent election. First, a growing rejection by the lowest socio-economic

groups of the Asian connection which once served Mr Fujimori so well.

More educated voters, meanwhile, were "increasingly opposed to the concentration of power in the person of the president." However, displaying to Mr Fujimori, Sunday's results cannot be interpreted as a body blow. At well over 70 per cent, the presidential approval ratings are as high as ever.

Mr Fujimori moved swiftly to minimise the possible challenge to his authority. Within hours of polls closing, he appointed Mr Yoshiyama to the powerful post of minister of the presidency. Here, his losing candidate will control a huge budget and, effectively, the purse strings for major public works projects in Lima.

If confrontation ensues, Mr Andrade's victory could prove a Pyrrhic one.

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## Recession fails to swing votes to Mexico's left

Daniel Dombey on dwindling electoral support for the PRD



Cuauhtémoc Cárdenas campaigning last year in Michoacán

In Tuxpan, a small town in Mexico's poor, western, agricultural state of Michoacán, voters milling around waiting for results of elections on Sunday were bemused by how much things had changed.

In the past the Party of the Democratic Revolution (PRD) the country's main left-wing electoral force was the main challenger in the town and the state, helped by strong ties with Mr Cuauhtémoc Cárdenas, one of the founders of the party, a former governor of Michoacán and son of Mexico's most revered president. Michoacán was the PRD heartland.

Now, the rightwing National Action party (PAN) with few roots in the state threatened to win the town, and challenged for second place in the state gubernatorial election.

With 50 per cent of the vote counted the ruling Institutional Revolutionary Party (PRI) had 38.4 per cent, with the PRD on 28.6 per cent. Elections in five other states saw the PRD do even worse.

Despite the severity of the worst recession for decades, voters have declined to support the organised left and the economic model it proposes.

"The left is being diced out and we're going into a two-party system," said Mr Federico Estevez, a political scientist at Mexico's Autonomous Technological Institute. "This is a very conservative country and that is showing in this shift rightward."

The economic crisis, unleashed by a botched devaluation last December, has certainly helped the PAN, which

offers similar economic policies to the ruling PRD. After running second in general elections last year, the PAN has won three out of five gubernatorial contests in 1996, helped by Mexico's strong Roman Catholic tradition, its US-influenced north and by fear of the violent rupture the left is often associated with.

By contrast, the PRD has suffered an identity crisis common to leftwing parties everywhere. As a coalition based around former PRI members, splinter groups from socialist and communist parties, and popular

organisations, it has failed to define clearly whether it would reverse key reforms such as privatisation and the North American Free Trade Agreement.

It is, however, far from clear that the left lacks a constituency. A good part of the PRD's decline appears to have come from avoidable errors.

Ever since the party's formation in the wake of 1988 presidential elections formally won by Mr Carlos Salinas, which the opposition challenged as flawed, it has been caught between its refusal to boycott elections and its

refusal to accept the results in most cases.

For its part, the PRI has benefited from having an opponent that challenges to shape, though it passionately insists it is a centrist.

In the meantime, the PRD is struggling for its survival. "We've lost the mainstream for now," says Mr Amado Cruz, one of only seven PRD congressmen who were directly elected in the last elections, and who has seen his party fall to fourth place in his constituency.

The party may have also made a strategic mistake in focusing its appeal on the poorest and most disaffected in Mexican society. "In 1988, Cárdenas won a large share of the middle class vote," said Mr Jesús Ortega, the party's leader in the lower house of Congress. "We lost that sup-

port, with the best will in the world, by concentrating our appeal on the people who have least."

But a leftwing vote of some size may still exist. The ruling PRI has struck a more left-wing note than before in its attempts to re-invent itself after the economic crisis, with some success. For months PRI officials have rallied against neo-liberalism. And the party won back the state-house in the northern state of Chihuahua after an openly populist and left-leaning campaign.

The extreme left, however, has probably lost sympathy it had. Once identified with calls for land and Indian people's rights, the Zapatista rebels who rose up in the state of Chiapas on January 1 1994 suffered a blow to their image over the course of 1995 as accounts emerged linking them to Marxist-influenced guerrillas of previous decades.

The future of the country's fragmented leftwing forces may depend on a new coalition that Mr Manuel Camacho, a prominent PRI defector, seeks to shape, though it is passionately insisting it is a centrist.

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sudden resurgence of interest, noting that the office market was at the bottom of the last five years' surveys.

Japanese investors continue to invest but still lead all foreign investors in the US office market, followed by the Netherlands, UK and Canada. Dutch and German institutions are buying up significant portions of the Eastern US office market, while Asian office building investors stick mainly to New York and the West Coast.

## US office buildings back in favour with investors

By Aishah Molavi in Washington

The office building is making a strong comeback as the preferred target of both foreign and domestic real estate investment in the US, according to two recent surveys.

Both capital-rich US pension fund investors and foreign investors from Asia and Europe are bullish on the sector. Of the major cities, Atlanta offers the best prospects, followed by

San Francisco, Boston and traditionally strong New York and Dallas.

Washington DC, has fallen from favour as investors withdraw from the nation's capital where Congress is eager to cut the size of government.

Domestic investors expressed particular interest in the suburban office building market, predicting 27 per cent value gains in five years and 46 per cent in 10 years, according to the annual trends survey issued recently

by a Real Estate Research Corporation poll of domestic investors.

The recently suffering downtown office building market took the biggest ratings jump in the survey, with nearly half of investors saying they will buy downtown in 1996.

The study reckoned a 40 per cent appreciation in downtown office values over the next 10 years, putting it ahead of traditionally lucrative retail and just behind suburban offices.

Foreign investors are equally enthusiastic about office real estate prospects, ranking it the number one choice for future investment, according to a recent study conducted by the Association of Foreign Investors in Real Estate (Afire), which represents foreign investors comprising half foreign investment in the US.

"The office building is back," says Mr James Felgatter, chief executive of Afire, who expressed surprise at the



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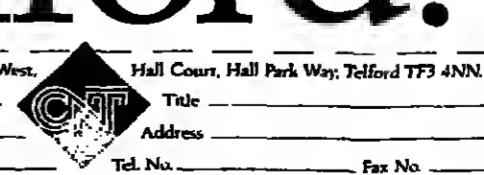
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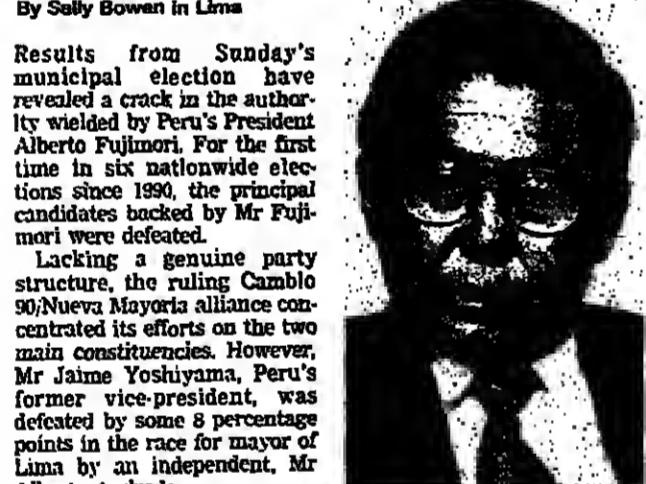


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Alberto Andrade: despite poll setback, his presidential approval ratings remain high

Popular rejection of his chosen candidate in Lima, home to a third of Peru's voters, looked a bitter pill for Mr Fujimori. He has devoted the past weeks to intensive appearances in Lima's shanty towns, inaugurating schools and stretches of road while simultaneously promoting Mr Yoshiyama. He pledged "total support" - this became the campaign slogan - if Mr Yoshiyama won. Mr Andrade, by implication, would find central government funding harder to come by.

Mr Andrade, mayor of the middle-class suburb of Miraflores since 1988, hung on to his early lead, capitalising on a well-deserved local reputation for efficiency and lack of overt opposition to the Fujimori regime.

If confrontation ensues, Mr Andrade's victory could prove a Pyrrhic one.

## NEWS: ASIA-PACIFIC

# Tokyo resignation heals Seoul rift

By William Dawkins

Seoul and Tokyo patched up a diplomatic rift yesterday after a Japanese cabinet minister resigned, in atonement for claiming that his country's former colonial rule of the Korean peninsula had done some good.

The South Korean Foreign Ministry announced within hours of the resignation that President Kim Young-sam would, as scheduled before the row, meet Mr Tomiochi Murayama, the Japanese prime minister, in Osaka on Saturday.

His departure lifts what would have

been an embarrassing shadow over Japan's chairmanship of this week's summit of the Asia Pacific Economic Co-operation forum, the most important regional gathering chaired by Japan since the second world war.

Even before Mr Eto's gaffe, Japanese-Korean relations were tense, due to Mr Murayama's own suggestion last month that Japan's annexation of Korea, from 1910 to 1945, had been legal.

The past week the tenseness in Japan's relations with South Korea since the pair established diplomatic ties 30 years ago, is the latest example of how this

year's 50th anniversary of the end of the second world war has proved, just as the Japanese Foreign Ministry feared, to be a diplomatic minefield.

Mr Eto made his fatal remark last week, but did not step down immediately because a majority in the LDP continued to support him. However, the government's hand was forced when South Korea shelved the bilateral summit over the weekend, and when the Japanese opposition group, the New Frontier party, submitted a no-confidence motion against Mr Eto in parliament.

Beijing spokesman makes embarrassing claim

# Top HK judge caught in Bill of Rights row

By Simon Holberton in Hong Kong

Sir TL Yang, Hong Kong's top judge, has become embroiled in controversy surrounding the colony's Bill of Rights, the colony's civil rights law that China wants watered down, following embarrassing allegations by a senior mainland official.

Mr Zhang Junsheng, China's spokesman in Hong Kong, claimed the colony's chief justice had told him at a dinner that the rights law "undermined Hong Kong's legal system".

In making these claims concerning their disfunction, which contradict Sir TL's public statements on the issue, Mr Zhang has dealt a possibly fatal blow to the chief justice's ambitions to become the colony's first chief executive, as the colony's post-1997 government will be known. If correct, it also raised questions about Sir TL's judgment for making them in the first place.

The chief justice, a Shanghai-based by origin and known to be close to Beijing, was regarded as front-runner for

the chief executive's job. But observers in Hong Kong said Mr Zhang would not have made so compromising a remark without first obtaining authorisation from Beijing.

Last month, a Beijing-appointed committee of wealthy Hong Kong business people and Chinese government officials recommended the Bill of Rights be watered down, and that six civil order and broadcasting laws amended to conform with the bill be changed back to their original form.

This proposal, since endorsed by China, was criticised by all sections of Hong Kong opinion, including some of China's staunchest supporters in the colony. At that time, Sir TL said he had decided to break his own silence on the issue because the debate about the rights law was having a "shocking impact" on the community.

Sir TL was clearly embarrassed by Mr Zhang's intervention. He did not deny he made critical comments about the rights law, but said he could not recall the specifics of a conversation, which had occurred at a private dinner.

"If I had known they would be unveiled in public I would have chosen my words more carefully and done some research before making them," he said.

Sir TL denied Mr Zhang's claim he spoke publicly in favour of the rights law only after pressure from the Hong Kong government. When the controversy over the Bill of Rights erupted last month Sir TL implicitly criticised China in saying that the matter should be left to Hong Kong, not the Beijing government, to solve after 1997.

The Hong Kong government said the Bill of Rights in no way contradicted China's Basic Law for Hong Kong. "There is no reason to tamper with it," Mr Ian Wingfield, acting attorney-general, declared.

The Hong Kong government's budget deficit for 1995-96 is likely to be in line with forecasts, Mr Mike Rowse, deputy secretary for the Treasury, said yesterday. Reuter adds. The government in March forecast a deficit of HK\$2.6bn (US\$336m) against a surplus of HK\$10.8bn in 1994-95.

# Burma shifts from reliance on China

By William Barnos in Rangoon

A senior member of Burma's military junta has visited Russia for the first time, underlining that the once-isolated regime's reliance on China, its principal foreign partner, has become less vital.

The Russian embassy in Rangoon confirmed Lt Gen Tin Oo, the army's chief of staff, who is also a member of the so-called State Law and Order Restoration Council, recently visited Russia. An embassy official described it as a "good-will familiarisation visit, with a relatively broad programme". Diplomats in Rangoon first learned something was afoot

when Gen Tin Oo "disappeared" from the pages of the local state-controlled newspapers for about two weeks. They strongly suspect the Russians will have offered to sell arms to the regime: cash-strapped Moscow has become an eager seller of weapons to Asia.

China is thought to have supplied the Burmese army with arms and equipment worth \$2bn when Beijing was an international outcast after its bloody suppression of pro-democracy demonstrations in the late 1980s and Burma's refusal to stand aside for a popularly elected government.

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The Chinese military hard-

ware helped transform the Burmese armed forces into a "semi-modern" force that has grown in strength from around 190,000 to at least 300,000. The Burmese army has used its new strength to help many of the country's decades-old ethnic insurrections.

China has also gained from its sponsorship of a rare ally during the awkward days after the collapse of communist Eastern Europe.

Other countries in the region have been alarmed by reports that the Chinese may have gained a foothold in the Indian Ocean following reports that Beijing has helped build naval bases and set up a long-range

radar station in the Cocos Islands for the Burmese.

But many senior members of the highly nationalist regime are wary of becoming too closely tied to China, as it begins to emerge from near isolation. Burma now regularly attends meetings of the Association of South-East Asian Nations, and has many foreign companies, mainly from Asia, nibbling at the business opportunities in its recently opened economy.

Mr Chavalit Yongchayudh, Thai defence minister, recently revealed that China was no longer willing to supply Burma with "military aid". Burma is believed to have paid for its Chinese arms, albeit perhaps at friendship prices. But the message may be that Beijing does not want Rangoon to take China's friendship lightly.

Burma when they judge the time to be right.

"Burma and China never particularly liked each other, but the relationship was convenient for both. That doesn't mean it will last forever," said Mr Bob Karniol, the Asia-Pacific editor for Jane's Defence Weekly.

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## ASIA-PACIFIC NEWS DIGEST

# Singapore sees 9% growth rate

Singapore's economy grew by an unexpectedly high 9 per cent in the third quarter of the year, helped in large part by strong electronics demand following the launch of Microsoft's Windows 95 software programme. The government now expects overall growth in 1995 to be 8.5 per cent, up from an earlier forecast of 7.8 per cent. Last year the economy grew by 10.1 per cent.

"Electronics demand was boosted by the launch of Windows 95 which stimulated the production of personal computers and computer peripherals such as disk drives and printers," a government report said. However, the government warned that high labour costs and rising industrial land prices could lead to a reduction in exports and discourage new investments.

Kieran Cooke, Kuala Lumpur

## Kim Dae-jung declares 'war'

Mr Kim Dae-jung (pictured left), the veteran South Korean opposition leader, declared "all-out war" yesterday against his arch-foe President Kim Young-sam over a slush fund scandal. His comment to a meeting of his National Congress for New Politics signals the start of a mudslinging feud between the two ahead of parliamentary elections next April. The opposition party claims that competition for power between the two men lies behind the slush fund scandal in which ex-president Roh Tae-woo confessed he amassed \$65m during his 1988-93 term in office. It believes the president engineered the scandal partly to spoil Mr Kim Dae-jung's image. As prosecutors delved into Mr Roh's secret fortune, the opposition chief was forced to admit he took \$2.6m from the disgraced former president to help fund his unsuccessful race for the presidency in 1992. The admission shocked his supporters as Mr Roh is another sworn enemy.

Reuter, Seoul

## Inter-Korean trade declines

Approvals for trade between South and North Korea fell sharply in October because of damage to North Korea's transport facilities from a heavy summer rainfall. Seoul's Unification Ministry said yesterday. Trade approvals awarded in October totalled \$13.58m, down from \$19.72m in September and \$20.76m in October 1994.

Reuter, Seoul

## Fried chicken outlet stays shut

The New Delhi outlet of KFC, formerly Kentucky Fried Chicken, the US food chain, will stay closed for at least 11 more days after a court yesterday declined to reverse cancellation of its licence. The Delhi high court set a second hearing on a petition by the PepsiCo-owned chain seeking to stay the cancellation and reopen the fast-food outlet, closed on Sunday following action by local health officials. "Let ordinary things be heard in an ordinary way," said Judge R C Lahoti. "Thousands of licences are cancelled every day." Delhi's state government, controlled by the Hindu nationalist Bharatiya Janata Party, cancelled the licence after officials claimed the premises were not clean. KFC is being targeted in protests by the BJP as well as environmentalists and peasant groups. Mr Kapil Sibal, KFC's lawyer, told the judges: "Two files were found in the restaurant. At this rate, no restaurant in India will function."

Reuter, New Delhi

## CRA faces new union action

Australia's union movement yesterday indicated it planned to step up its industrial relations battle with CRA, the resources group planning to merge operationally with Britain's ERTZ. Officials of the Australian Council of Trade Unions said every union in the country would be involved in unspecified action against the company "on a magnitude and level Australia has never seen". The ACTU and the company have been at loggerheads for two years over CRA's desire to move employees on to staff contracts and away from nationally agreed awards.

Nikki Tait, Sydney

## Vietnam suffers 'cement fever'

Vietnam has ordered the sacking of two directors from a state-owned cement company and publicly criticised six others after sharp rises in the price of the commodity earlier this year. The official Nhan Dan newspaper said yesterday Mr Ngo Xuan Loc, construction minister, had told the Vietnam Cement Corporation to sack Mr Nguyen Bon Bay and Mr Vu Cong Tri, Hanoi branch directors of the Hoangthach and Bimson cement companies. The other six officials would receive a warning.

The action follows an investigation into "cement fever" which saw prices of cement rise sharply in late April and May. During that time, retail stores owned by Vietnam Cement Corporation were reported to have almost emptied because of alleged hoarding by speculators.

Reuter, Hanoi

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## NEWS: INTERNATIONAL

# An uncharacteristic lapse in control-obsessed Riyadh

The car bombing in Saudi Arabia will shake that closed society's confidence, writes David Gardner, Middle East Editor, in Riyadh

**T**he car bombing yesterday of the Saudi National Guard communications centre in central Riyadh, part-staffed by US military advisers, has rocked Saudi Arabia to its foundations. It is the first time the kingdom has been exposed to terrorist assault, and will shake that closed society's confidence in its own security.

For the US, five of whose servicemen were among six of the confirmed dead from a blast that injured at least another 30 Americans and a number of others, the Riyadh bomb recalled the Islamic fundamentalist bombings of its marine barracks and embassy in Beirut in 1983.

For both Saudis and Americans, the attack drove home the message that, even in ostensibly stable countries in the Middle East, violence is rarely far from the surface.

Violent dissidence, however, has featured little in the kingdom's experience since the ruling House of Saud put together modern Saudi Arabia by conquest in 1932. When the car bomb went off just after 11.30

local time yesterday, many people in the area assumed it was a gas explosion, or perhaps even an illegal alcohol distillery going up.

The force of the blast, however, rocked the Al Khazama hotel nearly a kilometre away with the power of a short, sharp earth tremor, and the 100-metres high column of brown, then black smoke suggested more than a domestic tragedy or a bottegger's nightmare.

The target was the Office of Programme Management of the Saudi Arabian National Guard, the signals and communications headquarters of the military force whose primary function is internal control. It is headed by Crown Prince Abdullah, next in line to succeed King Fahd, the frail Saudi monarch.

Up to 50 US servicemen, understood to be experts in signals and monitoring communications, are attached to the centre, which GPT, the telecommunications arm of Britain's General Electric Company, has the contract to supply and maintain, according to

local businessmen. Managers at GPT's Riyadh office - where the security passes have a National Guard insignia - refused to confirm this yesterday. "This is a very sensitive time... I'll have to ask you to leave the premises," said one.

The communications centre, sited in a cluster of National Guard and Saudi Air Force buildings, was itself virtually unprotected, with a car park in front of it used by all-comers including, yesterday, by the car-bombers.

Speculation centred on Islamist dissidents, who in the wake of the Gulf war have called with growing stridency for a weakening of links with the US and the west, an end to corruption, and in some cases for the ruling family to share power by permitting Saudis to elect their representatives.

In recent months, leaflets have been circulated to Riyadh warning westerners against supporting the Saudi regime. The threat seems to have drawn little attention. Just over a year ago, the government rounded up hundreds of Islamist clerics and dissident

academics after agitation against the ruling family centred on the north-western province of Qasim, a seedbed of Islamic fundamentalism. Soon afterwards, the self-described "Brigades of Faith", hitherto unknown, threatened to rocket and bomb western embassies and companies. The Saudi authorities said they knew of no such organisation, and nothing happened.

Yet yesterday's security lapse was uncharacteristic in a country where the absolute monarchy is obsessed with control: not only does Crown Prince Abdullah command the National Guard, his brother Prince Sultan, seen as third in the al-Saud line of succession, controls the armed forces as defence minister and inspector general.

Nothing changed in the security set-up this August when the king reshuffled the cabinet and senior civil service to bring technocrats to the fore.

He used the opportunity to sack six of the kingdom's seven university chancellors, in what was seen as an attempt to tighten control of

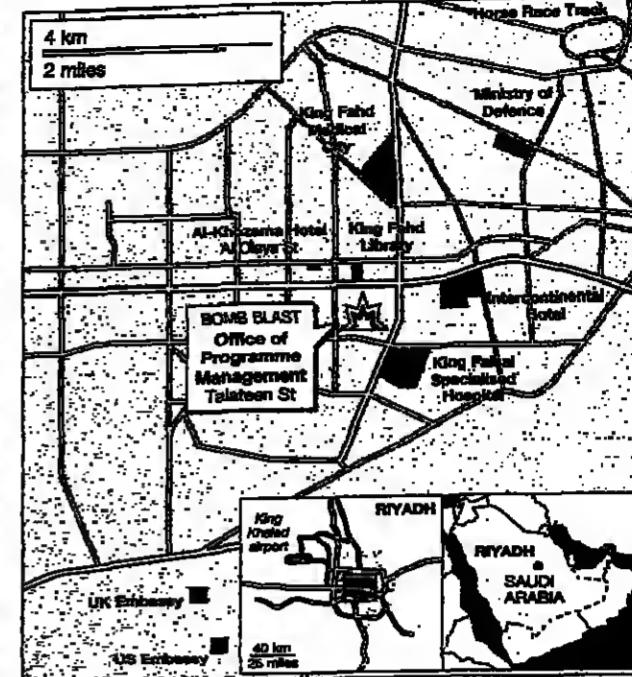
campuses. For, irrespective of episodic speculation about the king's health and the succession of Qasim, a seedbed of Islamic fundamentalism. Soon afterwards, the self-described "Brigades of Faith", hitherto unknown, threatened to rocket and bomb western embassies and companies. The Saudi authorities said they knew of no such organisation, and nothing happened.

It is the Islamist pressure which the ruling family fears most. Hence the attempts to rein in the free spending of the wider among its 5,000-odd members; hence the free reign given to the Muttawa, the religious police who enforce rigid public morals; hence the massacre this year of nearly 200 public beheadings under the Saudi interpretation of Sharia law; and hence the government's pressure on allies such as the UK, which allows such kingdom's Islamist opponents to use London as a base for its fax-borne propaganda war against the al-Saud.

The ruling family can now be expected to act with exemplary vigour in an attempt to overcome this new challenge to its hegemony and demonstrate again its extraordinary resilience.

It has managed sudden and great wealth from ownership of a quarter of the world's oil reserves, followed by an even more sudden collapse in oil prices; it has coped with importing into its closed society foreign labour equivalent to a third of the workforce; it survived the 1979 seizure of the Great Mosque at Mecca by Islamist zealots; and polices the annual influx of 2m Moslem pilgrims, among them organised partisans of Iran's Islamic revolution; and, most germane to yesterday's events, it is struggling to come to terms with the socially disorienting after-effects of having allowed 800,000 foreign troops on its soil during the 1990-91 Gulf crisis.

One middle-ranking member of the royal family remarked earlier this year that "if you have looked at the emergencies and dislocation this country



(the Saudi state) had not survived." But, he added, "the challenge is not over; in some respects, it is just beginning."

## Clinton warms towards Unesco

By Andrew Jack in Paris

The US is considering rejoining Unesco, the United Nations educational, scientific and cultural organisation, 11 years after its controversial decision to resign.

In a letter sent to Mr Fredéric Mayor, Unesco's director general, at the end of last week, President Bill Clinton said that his country's membership was "on my list of priorities for the future".

He said the current US budget constraints made re-joining impossible at present but that he was continuing "to explore ways to identify the necessary resources to make this wish a reality". The move represents a sharp change since the US quit Unesco in 1984 in response to concerns about the anti-American nature of many of the organisation's activities, as well as accusations of mismanagement.

The letter indicates the US no longer has any ideological objections to re-joining Unesco and says Mr Mayor has taken "great strides to address the concerns and issues that led to US withdrawal". Eight years ago Mr Mayor replaced Mr Amadou-Mahtar M'Bow of Senegal, who had been director general since 1974 and who had been criticised for his autocratic approach.

The president's comments reinforce assurances by his envoy, Ms Patricia Gentry Edington, who told the Unesco assembly last week that Mr Mayor "is to be congratulated for his leadership and commitment to constructive change that has restored Unesco's focus".

The letter is in contrast with recent declarations by government leaders, including Mr John Major, the British prime minister, that there needed to be more restructuring and possible abolition of United Nations' agencies.

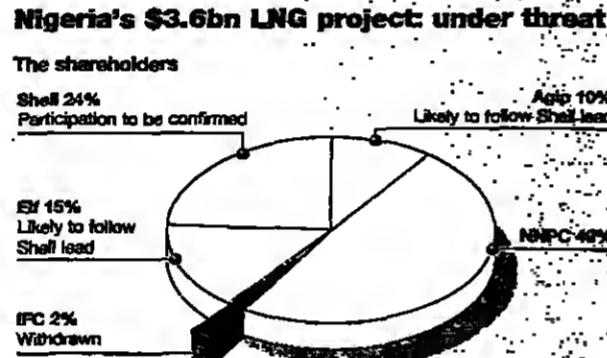
The US resignation deprived Unesco of 25 per cent of its budget, which was further affected a few months later when Britain and Singapore resigned.

Mr Clinton's letter precedes celebrations for the 50th anniversary of the creation of Unesco on Thursday, commemorating the date when the organisation's charter was signed in London.

The US and other critics were particularly concerned during the early 1980s about Unesco's proposed "new world information and communication order" which they believed would have led to censorship of the media.

## 'No doubts' over Nigeria gas project

Paul Adams reports on the attitude of the oil majors to their \$3.6bn export scheme



20 years LNG would bring export revenues peaking at \$1bn a year, 10 per cent of Nigeria's total current exports.

Gas exports add to Nigeria's revenue without being counted as part of its Organisation of Petroleum Exporting Countries quota. The project would also reduce the amount of gas flaring, a grievance of environmentalists, and create an infrastructure to exploit other gas reserves.

Nigeria has gas reserves almost as large as its oil deposits. Industry experts see gas as more important to Nigeria's future than oil. But the project has been stalled several times since it was first planned in the 1980s. It was almost cancelled in 1993 over political interference in the board by the Nigerian government, then revived by the private sector

partners who took the majority of the equity with Shell taking the lead.

A Shell international statement at the weekend that the decision on whether to proceed would be taken by the end of the year has led to speculation that the decision was being delayed for political reasons, as European Union governments gather today to discuss measures, possibly sanctions, against Nigeria for continued military rule and human rights abuses.

The shareholders have to commit themselves well before the end of the year to award the remaining contracts to a consortium led by Kellogg of the US and to engineering companies from France, Italy and Japan to build the gas plant and facilities to time to meet export orders by 1999.

The partners who took the majority of the equity with Shell taking the lead.

The Nigerian government is already struggling to repay arrears of more than \$700m from last year to the oil companies, and to keep its current \$2bn annual share of costs to oil exploration and production joint ventures. It is heavily in arrears on its debts to the Paris Club of official creditors.

By the middle of this year \$1.5bn of shareholder capital was already in place and another \$500m has been spent on initial site work and equipment, including LNG ships.

NNPC is confident the partners will raise most of the

remaining \$1.8bn, of which about \$600m should come from NNPC.

There has been no comment so far from the proposed buyers of the gas, mainly European state-owned corporations.

Italy's electricity utility Enel is to buy half the gas, 3.5bn cubic metres a year, and Gaz de France and Enagas of Spain most of the rest. Turkey's Botas has just signed up to buy some of the surplus. Following the recent decision by Distegas of the US to pull out of its deal to buy about 10 per cent of the gas, NNPC executives say they expect to find an alternative buyer in Europe.

Shell points out that the project is expected to benefit local communities with 6,000 new jobs created directly in a region where employment is very low, and will help to reduce the flaring of wasted gas, which is one of the main grievances of communities in the Niger delta against the oil companies operating there.

Campaigns to stop the LNG project have overlooked gas projects begun earlier this year by Chevron and Mobil of the US at Escravos and Oso respectively which will cost a combined total of \$1.5bn to build over the next three years but would add greatly to Nigeria's gas production. Mobil Producing Nigeria last month secured \$300m on the international debt market to fund part of its Oso phase two project.

## Rabin's legacy fulfilled as troops pull out of Jenin

By Julian Ozanne in Jerusalem

Israel yesterday pulled its troops out of the West Bank town of Jenin ending 28 years of military occupation.

The handover of Jenin to Palestinian forces was hailed by Palestinians as a fulfilment of assassinated Prime Minister Yitzhak Rabin's peace legacy.

"Without a doubt this day crowns the work of Prime Minister Yitzhak Rabin who lost his life working for peace," said General Nasr Yusuff, Palestinian military chief.

Jenin's 40,000 Palestinian residents rejoiced at the departure of Israeli troops, danced in the streets, draped buildings with Palestinian flags and fired guns in the air.

The withdrawal also signalled the determination of acting Prime Minister Shimon Peres to meet Israel's peace commitments and complete its withdrawal from Palestinian areas ahead of Palestinian elections due January 20.

In the coming weeks Israel will hand over Tulkarm, Kalkilia, Nablus, Ramallah and Bethlehem to Palestinian security forces and will partially withdraw from Hebron, a flash point of Arab-Jewish violence.

Under the West Bank peace agreement signed in September, Israel will also hand over limited civil and security powers to Palestinians in 450 towns, villages and refugee camps.

This is a first step, the very important step to implement what we had agreed upon and we have to thank Mr Peres for fulfilling his promises," said Mr Yassir Arafat, chairman of the Palestine Liberation Organisation.

In Cairo, members of the ruling body of the PLO ended a two day meeting with a call for all Palestinian groups, including the Islamic militant Hamas group, to take part in the multi-party elections for an 82 member executive and legislative council.

Palestinian officials said they were about to engage in a dialogue to convince Hamas to abandon its armed struggle against Israel and participate in the unprecedented polls, the first ever Palestinians elections. The officials said Hamas' decision not to boycott the electoral registration campaign, which started this week, was a positive sign that the two might reach a compromise.

"The committee considers there is a need for participation by all Palestinian people, in social and political institutions in the building of our homeland," said Mr Yassir Arafat-Rabb, a senior PLO official.

In Israel, Mr Peres met Mr Benjamin Netanyahu, leader of the right-wing opposition Likud party, and agreed to defuse mounting tension between left and right sparked by Mr Rabin's murder.

## Foreign investors are in no hurry to divest

**N**igeria is highly vulnerable to economic sanctions, as it attracts more foreign direct investment than any other African country, despite its political instability and ill-conceived macro-economic policies.

Figures compiled by the United Nations Conference on Trade and Development (Uctd) show inflows averaging \$836m (\$532.5m) annually between 1990 and 1993, virtually double the inflow to Morocco, in second place with \$422m. The oil sector absorbed the bulk of the gross-plus of foreign investment in Nigeria between 1981 and 1994.

Foreign investors yesterday said they had no plans to divest, despite last week's execution of Mr Ken Saro-Wiwa and eight others, which attracted international condemnation. Companies including Unilever, Nestle, Paterson Zochonis, and Standard Chartered Bank, among the leading non-oil investors in Nigeria, said consumers and shareholders had put them under no pressure to divest.

"We have had no calls or letters on the subject at all,"

Nestle, the Swiss food giant, whose two factories in Nigeria employ 1,300 people, said: "We do not intend to withdraw. It is hard to see why we should punish the Nigerian consumer for some acts of its government."

Guinness said it would not be reducing its 40 per cent stake in Nigerian Nigeria. The company is carrying out a five-year \$45m re-equipment plan on its four Nigerian breweries. It said it was "difficult to conceive" of any international sanctions that would affect Guinness's interests in Nigeria.

Mr Alan Whittaker, finance director of Paterson Zochonis, the Manchester toiletries and detergents group, said any sanctions against Nigeria would hurt its business there.

After the government this year scrapped the indigenous decree, allowing foreign companies to take a majority stake in Nigerian-based companies, Unilever has a 10 per cent share in Unilever Nigeria (formerly Seward) which mainly produces skin products.

Unilever's other Nigerian interests include a 40 per cent stake in Lever Brothers Nigeria, which produces detergents, personal products and foods. On Friday, Lever Brothers Nigeria and Unilever Nigeria are holding an extraordinary general meeting to discuss a merger. Few Western companies are likely to want to attract adverse publicity by following Unilever in taking the government's scrapping of the indigenous decree in this year's budget.

The opening up of water agreements for exploration and the production-sharing system for developing new oil projects

have attracted a growing number of foreign players, with Esso, BP, StatOil and others following companies such as Shell, Mobil and Chevron into explorations.

Parallels with the Commonwealth's other sanctions experience, in South Africa, are inappropriate. In South Africa, disinvestment was driven partly by the conviction that it would foster political change, as it did, but also because white minority rule appeared almost open-ended.

The two year time-scale for Nigeria's potential suspension from the Commonwealth, on top of General San Alvaro's promise to return the country to civilian rule within three years, means foreign companies are more likely to sit out the crisis than divest. They will calculate that Nigeria, after South Africa, is the one strategic sub-Saharan market, in terms of sheer size and growth potential, that few multinationals, especially in consumer industries, dare ignore.

At a news conference, a coalition of 10 opposition parties said they would also boycott repeat presidential and parliamentary polls to the capital Dar es Salaam scheduled for next Sunday.

"Because of the irregularities that took place everywhere, I do not see any point in contesting the presidency," said Mr Augustine Mrema, leader and presidential candidate for the NCCR-Mageza party.

He said the opposition had no confidence in the National Electoral Commission, which ran the October 29 polls, condemned by independent monitors as chaotic and

by the opposition as rigged.

Mr Ibrahim Lipumba of the Civic United Front (Cuf) and Mr John Cheyo, leader of the United Democratic Party (Udp), also announced they were withdrawing from the presidential race.

The opposition, however, was facing almost certain defeat from the October 29 elections and losing its legal battle for the presidential and parliamentary polls to be declared null and void. The high court earlier on Monday rejected two opposition applications to have the Dar es Salaam re-run cancelled and the announcement of presidential election results suspended.

The ruling Chama Cha Mapinduzi (CCM-Party for the Revolution) was set for a landslide victory in the parliamentary race, having gained 80 per cent of the seats declared so far.



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## NEWS: UK

# Irish PM issues fresh peace challenge

By John Murray Brown and John Kampfner in Dublin

Government officials in the Republic of Ireland yesterday disclosed details of a six-point agenda for breaking the impasse in the Northern Ireland peace process.

The agenda was sent last week by Mr John Bruton, prime minister of the republic, to his British counterpart, Mr John Major.

It includes a target date for all-party talks. These would begin six weeks after a report by an international commission to establish the good intentions of the Sinn

Féin party, the political wing of the Irish Republican Army.

The officials said the "twin track" approach could be launched immediately on the successful conclusion of a summit between Mr Bruton and Mr Major. The scenario, as envisaged by Dublin, would open with preliminary talks, involving the individual political parties and ministers from both governments.

These would take place at the same time as a commission charged with finding confidence-building measures that could pave the way for the all-party negotiations. The commission

should deal exclusively with terrorist arms.

● Procedures for setting up preliminary talks.

● The basis on which political parties will speak on behalf of paramilitaries (this is designed to ensure that Sinn Féin is authorised to speak on behalf of the IRA).

● The extent of the commission's remit.

● How this would fit in with the proposal of pro-British parties in Northern Ireland for a new elected assembly for the region.

The republic's government hopes that its definition of the commission's work contains

sufficient flexibility to secure the co-operation of Sinn Féin. Sinn Féin has long insisted that all arms, including those held by the British army, should be considered part of the equation.

The government of the republic prefers the commission to have the last word on much of the detail.

The approach appears to assume that the commission will be headed by Mr George Mitchell, President Clinton's adviser on economic policy for Northern Ireland, can make sufficient progress to allow a second summit at the end of the six-week period.

## Exporter swerves past cones obstacle

By Michael Cassell  
Business Correspondent

Mr Harry Houghton was at his wits' end. After successfully selling reflector cones to German highway authorities, the managing director of Swintex

— a Lancashire-based manufacturer of road safety products with export sales of around £2m (£3.14m) a year — was informed by the country's transport ministry that, after complaints by local competitors, his company's products were to be tested.

In the meantime, they should not be sold because they did not have a type approval certificate. "But there were no detailed standards in place and our cones easily exceeded the basic requirements," recalls Mr Houghton. "We asked what standards they intended to test them against and they said they would devise one."

A draft standard was created and Swintex cones easily complied. But then the German authorities made the first of 12 upward revisions in their standard requirements. Each time, Swintex cones passed and finally the authorities refused to test them further, declined to publish the promised standard and refused to issue a type approval certificate.

But after the intervention of the DTI's Single Market Compliance Unit — and under threat of investigation by the European Commission — the authorities published the new standard. Swintex sales in Germany, which had by then fallen by 80 per cent, have

since risen rapidly and the company is now back on good terms with German officials.

Though the DTI's Compliance Unit operation is a modest one — it comprises only three people — its work has been given a high priority by its political masters, who earlier this year initiated a trade barrier action plan intended to expose breaches of trade rules around the world.

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Christopher Haskins, chairman, Northern Foods: "The only reason for not wanting to be part of Esm is to have the option of devaluation"

Bill Good, managing director, Sterling Tubes: "The elimination of state aids in Europe is critical"

David Lovatt, managing director, Acme Maris: "Uneven distribution of grants will force lesser companies to close"

Confederation of British Industry Delegates challenged over approach to single currency

## Rightwing Tory woos business on European policy

Paul Cheeswright  
in Birmingham

Mr John Redwood, the backbench leader of Conservative Eurosceptics who earlier this year challenged for the party leadership, attempted yesterday to dislodge the Confederation of British Industry from support for European economic union.

His intervention came as the CBI leadership started a new campaign, Business in Europe, to spell out the "economic realities" behind being what Mr Niall FitzGerald, vice-chairman of Unilever, called "committed pragmatists".

Speaking in Birmingham yesterday at a meeting on the fringe of the CBI annual conference, Mr Redwood evoked the standard Eurosceptic fear of loss of sovereignty if sterling becomes part of a single European currency.

"Don't be a sheep and be exported live into Europe against your will," Mr Redwood exhorted about 100 business leaders. "If we entered a single currency, business would soon discover that far from making it easier for them, it had made them uncompetitive."

However, delegates in Bir-

mingham faced threats on every side. There would be commercial damnation if the UK became more deeply engaged in Europe, commercial damnation if it did not.

For Sir Leon Brittan, vice-president of the European Commission, the safe working assumption is that there will be an economic and monetary union in Europe by the end of the century. If, as the Eurosceptics urge, the UK turned its back now on Esm, "we would certainly lose any further influence over the process of setting it up," Sir Leon said.

That would be a real disadvantage, as if it is set up, it is bound to affect us enormously.

If we say "no" now, there is no compensating economic gain and no lasting political advantage either."

Both Sir Leon and the CBI leadership are keen for the government to act more enthusiastically towards Europe, and fearful of the consequences if it does not. The Business in Europe initiative follows CBI criticism last week that the debate on the UK's role in Europe has become negative and threatens UK economic interests.

Those of us who do business in Europe know that the

UK has been steadily losing credibility as a negotiating partner in the EU. Maybe even more dangerous, we are increasingly ignored," said Mr Fitzgerald, who is chairman of the CBI's Europe committee.

Mr Bryan Nicholson, the CBI chairman, also used his opening address to the conference to attack the "frenzied fringe" for attempting to hijack the debate on the UK's role in Europe.

Mr Bryan said the UK continued to dominate political and economic debate but lamented the fact that it generated more heat than light. "There are too

many people around who subscribe to messianic fervour for rational debate," said Sir

Opposition Labour party leader Mr Tony Blair yesterday took his first step towards defining the top rate of income tax under a Labour government, when he said in an interview that Labour would not return to "80 per cent or 90 per cent tax rates".

He was explaining his statement in yesterday's speech to the Confederation of British Industry conference that "penal rates of taxation... are

gone for good". In the interview, Mr Blair said he would announce any planned increase in the top rate of tax before the next election.

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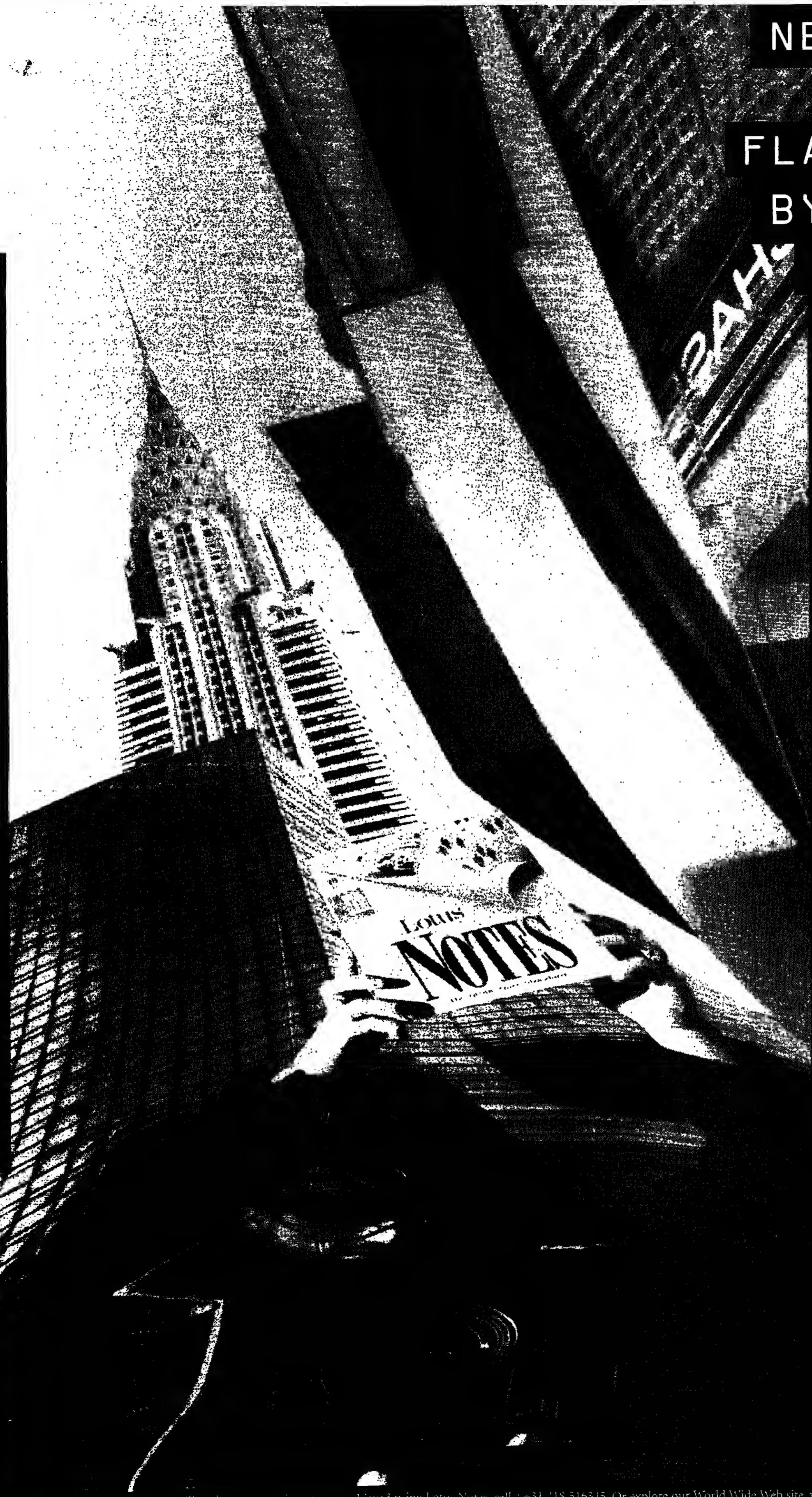
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## LAW

## Interim relief in national courts

**EUROPEAN COURT**  
National courts may grant injunctions in cases involving European regulations where the validity of the regulation is the subject of a reference for preliminary ruling from the European Court of Justice, the Luxembourg court ruled last week.

The case arose out of proceedings in Germany between the Atlanta group and the German Federal Office of Food and Forestry. Atlanta challenged the validity of a council regulation on the common organisation of the market in bananas and, in particular, the allocation of import quotas for third-country bananas.

The Frankfurt Administrative Court shared Atlanta's doubts about the regulation's validity, and ordered a stay of proceedings pending a preliminary ruling by the European Court. Atlanta asked the Frankfurt court for interim relief ordering the Federal Office of Food and Forestry to grant it additional import licences pending the ECJ's decision.

This prompted the German court to make a second reference for a preliminary ruling. The second reference asked whether, and if so when, a national court could order positive measures of interim relief.

Last week's ruling related to the second reference. The Frankfurt court questioned first whether a national court which has asked the ECJ for a ruling may make an interim order provisionally settling or regulating the disputed legal position pending the ECJ's decision.

In an earlier ruling in the Zuckerrabrik case, the court had ruled that national courts could order interim relief consisting of suspensive measures. The question was whether that principle extended to cover interim relief which created a new legal position for the benefit of the person seeking legal protection.

Following a review of its earlier decisions, the court concluded that in the context of an action for annulment, the Treaty of Rome not only

authorises a national court to order application of a contested act to be suspended, but also confers on it the power to prescribe any necessary interim measures.

Thus the Frankfurt court was not precluded from making a positive order provisionally disapproving the disputed regulation by ordering the grant of additional import licences.

The second question referred by the Frankfurt court concerned the conditions under which a national court could grant such interim relief. The ECJ clarified the conditions which had already been set out in Zuckerrabrik in relation to suspensive interim relief, and stated clearly that those conditions must be observed when a national court orders any interim relief.

The court said there were four requirements to be fulfilled before granting such interim relief. First, the national court must entertain serious doubts as to the validity of the European measure which is being challenged. If its validity is not already in issue before the ECJ, the national court must refer it to Luxembourg. When making the interim order, the national court must set out why it considers the ECJ should find the measure invalid.

Second, the national court may only order such interim relief where it is urgent. It must be necessary to avoid serious and irreparable damage being caused to the party seeking the relief. Purely financial damage will not generally be regarded as irreparable.

Third, the national court must take due account of the European dimension. It must examine whether the European measure in question would be deprived of all effectiveness if not immediately implemented.

Finally, the national court must respect any decisions of the ECJ or the Junior Court of First Instance as to the legality of the European measure.

C-469/93: *Atlanta Fruchthandelsgesellschaft v Bundesamt für Ernährung und Forstwirtschaft*. ECJ FC, November 9 1995.

BRICK COURT CHAMBERS, BRUSSELS

## Falotti's star rises at restructured AT&amp;T

Pier Carlo Falotti, 53 (pictured left), who only joined AT&T just over a year ago, has been put in charge of all the international operations of the slimmed-down AT&T. Falotti, who spent 23 years with Digital Equipment in Europe, currently heads AT&T's operations in Europe, the Middle East and Asia and is based in Brussels.

AT&T announced in September that it was splitting itself into three separate companies focused on communications and information services, systems and technology, and computing. The communications services group will be the core of the "new" AT&T and will continue to be headed by Robert Allen, AT&T's current chairman and chief executive.

The rest of the new top management team consists of AT&T veterans. Gail McGovern, 43, becomes executive vice president of the business markets division. Joseph Nacchio, 46, becomes executive vice president of the consumer and small business division; and John Petillo, 46, will be responsible for business strategy.

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BRICK COURT CHAMBERS, BRUSSELS

## BWZ's French ambitions

Guy de Froment, 45 (left), has been put in charge of BWZ Asset Management's bid to become a major player in the French investment management business. France is Europe's second biggest investment management market and BWZ is keen to expand its business, which has funds under management of Fr280m. De Froment has taken over as director general of BWZ Asset Management (France), which has been managed up to now by Jean Jacques Wilmart who has other responsibilities in the local bank.

McNamara for Caspian

Robert McNamara, 78, ex-US defence secretary and former president of the World Bank, is one of those businessmen who never want to give up. Having retired as a director of blue chip companies ranging from Ford, Bank of America, Royal Dutch Petroleum and the Washington Post, he is joining the board of Caspian Holdings, an investment banking boutique set up by Christopher Heath, the former managing director of Baring Securities.

Heath, who left Barings well before it

collapsed, is hoping to recreate the success of his previous venture. McNamara's arrival in an already star-studded board room should help Caspian's bid to become a major player in the emerging markets of Latin America and Asia.

## RAT Australia move

Stuart Watterton (left) is to replace David Chapman as chief executive of RAT Industries' Australian subsidiary, WD & HO Wills. Chapman's departure, after only seven months in the job, follows a fierce tobacco price war in Australia, which saw Wills' operating profits down by some 72.6 per cent to A\$11.6m in the half year to June 30. However, the company said his move had much more to do with a global reorganisation of BAT's tobacco business announced early last year, than with the poor results.

His successor, born in 1942, joined the UK-based tobacco and financial services group in 1974 and has seen most corners of the BAT empire in the intervening 23 years. Most recently he was responsible for special projects, personnel, corporate affairs, legal and secretarial services at Batco, the UK subsidiary.

## Hopkins for GM auditor

Deborah Hopkins' appointment as general auditor of General Motors, the archetype of corporate America, sounds another blast for women reaching the senior echelons of US multinationals, writes Haig Simonian.

Only a handful of women feature among GM's 66-odd vice presidents. But although the general auditor is not on quite such an exalted level, the arrival of Hopkins, 40, who has worked for the past 13 years at Unisys, the computers group, marks an important step nonetheless.

Hopkins will be responsible for GM's internal auditors around the world, reporting to Leon Krain, the vice president in charge of the finance group. The motor industry will be familiar territory for her, before moving to Unisys, she worked for almost five years for Ford.

■ GM is meanwhile looking for up to three candidates to fill the empty slots on its board

Hopkins: returning to the motor industry from Unisys

of directors, increased this month with the resignation of Paul O'Neill, chairman of the Alcoa aluminium group. O'Neill is stepping down because as many car companies as possible to use aluminium on future vehicles.

GM's board tends to fluctuate in size. However, the company has indicated in the past that 15 is a good number. The tally after O'Neill's departure is just 12.

McGraw-Hill's new division, McGraw-Hill Home Interactive. He joins from Harcourt Brace & Co.

■ Daniel Ramirez-Isava, formerly director and board member of Petróquimica de Venezuela SA, has taken up his appointment as chief executive of British-based Bitor Energy and Bitor Europe. He succeeds Manuel De Oliveira, who has been appointed executive president of Petróquimica de Portugal, Petrógal SA.

■ John O'Carroll, a 25-year hotels industry veteran, becomes regional vice president operations for UK and Scandinavia at Intercontinental Hotels & Resorts, and general manager of the group's flagship Hotel Inter-Continental in London. He was previously vice president operations for the Mediterranean region.

## International appointments

Please fax announcements of new appointments and retirements to +44 171 873 3226, marked for International People. Set fax to 'fine'.

## INTERNATIONAL ARTS GUIDE

## AMSTERDAM

## BERLIN

## PARIS

## LONDON

## MOSCOW

## TOKYO

Retrouvons-nous dans L'EXPRESS

jeudi 16 novembre

## ARTS

The British Art Show continues in its worthy quinquennial role of taking a substantial sample of recent British art into the regions. It so happens that I was the sole selector of the very first British Art Show, which opened at Sheffield 16 years ago. The brief I had accepted was to make a broad but personal selection of work made in Britain within the previous three years or so. And this I did, in so far as I could, taking work from 112 artists, thus embracing figurative and abstraction, minimalism and conceptualism.

The catalogue foreword now tells us that the British Art Show has changed its character since my day, in response to "new developments" and "rising public expectations". Quite how the latter match the former is but the first question to be begged. "The work of artists in this country" it goes on, "embodies too complex a blend of influences, cultures and beliefs" for any representative survey. The show "has moved by degrees away from a catholic spread across generations and styles to the presentation of increasingly challenging and innovative work."

Small wonder then that the three selectors should have objected to the title from the beginning. In the words of one of them, Thomas Lawson: "...to take on responsibility for a notion of Britishness that none of us could identify just seemed too much." Poor things - so flattered to be asked to take on the job: so unhappy then to lay head on block.

"From the outset we argued for a shrinking of outside expectations." So much for those rising public expectations. Here was to be nothing more than "a selection of what we three could agree was the most challenging work made in Britain during the past five years. It is an admission as pitiful as it is damning.

So what is it that is thus, by that absolute criterion, so challenging? Clearly it is the sole province of the young, for all but one of the 26 artists represented are under 36, with Lucia Nogueira, who arranges matchsticks on panes of glass, the one exception at 45. Her loose assemblages, so Richard Cork, another selector, tells us, "explore a sense of fracture... Her images are broken because she cannot imagine working in any other way... (She) makes a virtue out of incompleteness.

There is no painting worth the name, and no sculpture, if that word retains any meaning. Whatever is made by hand is poorly done. Here are Mark Wallinger's racehorses, painted with painstaking lifelessness: he throws together "images of thoroughbred racing and racing in a delirious critique of primogeniture" (Lawson). Jerry Stewart's mannikins may "nag at the conscience in a deliberately naive yet independent way" (Cork), but they are none the less crude in the modelling for that. The paintings of Gary Hume, whose "target was another English affliction: tastelessness" (Cork), merely gives inaptitude a new dimension.

Lawson and Rose Finn-Kelcey, the third selector, giggled at Prince Charles's watercolours before coming to the conclusion that what "provided the necessary ironic framework that made them interesting was the elaborate presentation of insignia and signature" on the supporting screens. Lawson is very keen on irony, of which I'm sure he takes the true meaning - the deliberate stating of the opposite of what is meant. "Can painting offer anything fresh at this historical moment?" he asks. "Can painting, alone, be deployed with irony, but not seem coy?" Clearly not.



Pantomime costume and fibreglass resin: 'Oh No He's Not, Oh Yes He Is', 1995, by Mark Wallinger

## Pseudo-profoundities

William Packer despairs at work selected for the British Art Show

The best art being made in this country, regardless of medium," he asserts, "is actively informed and enlivened by a grasp of various cultural and political theories." So it must be back to the seminar for Lucian Freud and Euan Uglow, Anthony Caro and Eduardo Paolozzi. The day of their unironical innocence is surely past when Anya Gallaccio "enriches her work with references to painting" as she smears the walls with melted chocolate. Here is Sam Taylor-Wood's video of a naked male dancer swinging along to Samuel Barber. And here is Gillian Wearing

taking photos of herself, with nothing on, in bed with other women. Catherine Yass takes photographs of empty corridors, Bridget Smith the curtains of empty cinemas. Douglas Gordon shows us old film of two doctors forcibly restraining an hysterical woman. Tacita Dean shows a man putting a ship in a bottle, and a clip of an old wind-jammer. Chris Ofili, inspired, we are told, by William Blake, sticks elephant turds to his canvases. And there, in the middle of it all, is the sorcerer's apprentice, Damien Hirst, with his butterfly collages and pickled sheep.

The only challenge in any of such pseudo-profound banality is to our patience. As the 1990s lurch towards an ignominious close, more and more young artists", says Richard Cork, "are becoming preoccupied with a sense of frustration, confinement and loss." They are not alone.

The British Art Show 4: several Manchester venues until February 4, then on to Edinburgh and Cardiff; a National Touring Exhibition, organised by the Hayward Gallery for the Arts Council; sponsored in Manchester by Siemens.

It is always heartening to see a theatre bold enough to place new writing - rarely a safe bet - on its main stage. So Bristol Old Vic's decision to mount Catherine Johnson's new play in its main house is admirable. Johnson is a veteran of the theatre's smaller studio space where her work has been characterised by an individual sparkle and sense of humour.

At first glance her new work *Renegades* has the same originality and refreshingly unconventional style. It also has many points in its favour: it is topical, local and ambitious. But dramatically it proves a disappointment. Johnson deals with hefty themes: rising crime, a disintegrating sense of community, questions of how to impose order and the moral validity of individual protest or law enforcement. She explores all this through one small patch of Bristol, a leafy middle-class crescent, where a jolly front of neighbourliness cannot disguise the fact that the community spirit is curdling and car theft and vandalism are on the up. But, and this is what is

### Theatre/Sarah Hemming

## Community clashes

attractive about the play, rather than plod sombrely through the issues, she approaches them through a comic format, delivering everything with a top spin.

Into the crescent rides Godfrey Best, self-styled cowboy and head of his own private security firm, Renegades. Planting his feet firmly apart and fixing the residents with the glinty stare favoured by Clint Eastwood, he promises to protect them from the nastier elements of society. Soon the vigilante has instigated his way into the crescent, along with his heavy-handed henchman brother.

Since Godfrey clearly confuses the West country with the Wild West and since the residents of Granby Vale just happen to be rehearsing their annual amateur production of *Oklahoma*, there are plenty of excuses for corny musical references -

and there is something captivatingly daft about the whole scenario. But when two New Age crastics pick an empty house in the crescent for their latest squat, the stage is set for a high-noon showdown between cowboy and cracity - two people who have taken the law into their own hands and for a fizzing clash of values.

The play's genial comic tone carries it a long way, but not quite far enough. There is too much going on for the play to get to grips with anything properly - and that is leaving aside several sub-plots. Its busy nature means that the characters are limited to stereotypes and even if the fact that they are clichés is intentional, it leaves them a very short rope on which to play.

Even more hampering, though, is the structure. Johnson frequently employs the television style of split-focus scenes, cut-

ting back and forth from one conversation to another. This is all very well in setting up a sense of comic confusion and like-life bustle, but it makes for awkward pauses in the acting. At one point, she has three crucial climactic dialogues going on at once at different points around the stage, and cuts from one to the other, with the result that actors are left hanging mid-revelation.

They look awkward, the tension is dissipated and the audience's concentration is frustrated. Indeed the cast often look rather uncomfortable in Andrew Hay's curiously muted, rather underpowered production, as if they are not sure where the energy should be directed in the scene.

The play shows that Johnson has a quirky style and grapples with the slippery nature of life in Britain today in a highly original way. But, this time, the result is patchy and unsatisfying as a piece of theatre.

Continues to December 2 at Bristol Old Vic (0117-987 7877).

■ AMSTERDAM

AUCTION Sotheby's Amsterdam Tel: 31-20-5502200

■ Old Master Drawings: with works by Jacob Goltzius, Willem van de Velde the Elder, Adam Elsheimer, Jan van Goyen, Govert Flinck, Paulus Potter and others; 2pm; Nov 15

CONCERT Concertgebouw Tel: 31-20-5730573

■ Borodin Quartet: performs works by Prokofiev, Wolf and Schubert; 8.15pm; Nov 16, 18

■ BERLIN

CONCERT Konzerthaus Tel: 49-30-203092100/01

■ Freiburger Barockorchester: and soprano Ursula Fiedler perform works by Zelenin and Conti; 7.30pm; Nov 15

DANCE Deutsche Oper Berlin Tel: 49-30-3438401

■ Les Intermittences du Coeur:

choreography by Roland Petit on music by Saint-Saëns, Wagner and others. Performed by the ballet of the Deutsche Oper Berlin; 7.30pm; Nov 15

OPERA & OPERETTA Komische Oper Tel: 49-30-202600

■ Orpheus and Eurydice: by Gluck. Conducted by Hartmut Haenchen and performed by the Komische Oper. Soloists include Jochen Kowalski and Yvonne Wiedstruck; 8pm; Nov 17

■ BONN

OPERA & OPERETTA Oper der Stadt Bonn Tel: 49-228-7261

■ Don Giovanni: by Mozart. Conducted by Shuji Okatsu and performed by the Oper der Stadt Bonn. Soloists include Michael Volle, Hasim Papian, Laurence Dale and Marisa Vitale; 8pm; Nov 16, 24

■ CHICAGO

CONCERT Orchestra Hall Tel: 1-312-435-6666

■ Chicago Symphony Orchestra: with conductor Semyon Bychkov perform "Rendering" by Berio/ Schubert and Shostakovich's "Symphony No.11"; 8pm; Nov 16, 17 (1.30pm), 18, 21 (7.30pm)

■ DUBLIN

CONCERT National Concert Hall - Geólfána Náisiúnta Tel: 353-1-6711533

■ Music Now: In the afternoon Anthony Byrne plays the piano music of John Buckley introduced by the composer. In the evening the National Symphony Orchestra with

■ GOTHENBURG

CONCERT Göteborgs Konserthus Tel: 48-31-7787800

■ Göteborgs Symfoniker: with conductor Neeme Järvi and bass Anatoli Kotcherga perform Haydn's "Symphony No.55" and Shostakovich's "Symphony No.13"; 7.30pm; Nov 15

■ HAMBURG

EXHIBITION Hamburger Kunsthalle Tel: 49-40-24982612

■ Jamies Kounellis: the Hamburger Kunsthalle has invited Kounellis to

create an installation for the museum. At the same time a retrospective of his work will be shown; from Nov 17 to Jan 7

■ FRANKFURT

CONCERT Gewandhaus zu Leipzig Tel: 49-89-1340400

■ Boje Skovhus: accompanied by pianist Helmut Deutsch. The baritone performs songs by R. Schumann, C. Schumann and Schubert; 8pm; Nov 18

■ GLASGOW

CONCERT Glasgow Royal Concert Hall Tel: 44-141-3326633

■ Royal Liverpool Philharmonic Orchestra: with conductor Libor Pesek and clarinettist Vlastimil Marek; perform the overture to Berlioz's "Les Coriolans", Mozart's "Clarinet Concerto" and Dvorák's "Symphony No.8"; 7.30pm; Nov 16

■ GOETHE

CONCERT Göteborgs Konserthus Tel: 48-31-7787800

■ Göteborgs Symfoniker: with conductor Neeme Järvi and bass Anatoli Kotcherga perform Haydn's "Symphony No.55" and Shostakovich's "Symphony No.13"; 7.30pm; Nov 15

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■ LONDON

AUCTION Christie's South Kensington Tel: 44-171-5817811

■ Modern First Editions and Autograph Letters: Churchill memorabilia and autographs will be included in the sale, as well as a number of first editions by Katherine Mansfield, a turn-of-the-century short story writer from New Zealand; viewings: Nov 15; 9am - 5pm, Nov 16: 9am - 5pm, auction: 11am; Nov 17

■ LEIPZIG

CONCERT Gewandhaus zu Leipzig Tel: 49-89-13404242

■ Bachorchester: with conductor Christian Funke and pianist P. Rose; Soloists perform works by Haydn, Beethoven and Mozart; 8pm; Nov 18

■ MARSEILLE

CONCERT Opéra de Marseille Tel: 33-81 55 00 70

■ Radu Lupu: the pianist performs works by Beethoven and Schubert; 8.30pm; Nov 17

■ MUNICH

CONCERT Philharmonie im Gasteig Tel: 49-89-430980

■ Barbara Thompson: with the BBC Singers and the Medici String Quartet. The saxophonist, flutist and composer premieres a commission for BBC Radio 3, based on the early poems of Philip Larkin. It is partnered by a programme of Kurt Weill settings for saxophone and string quartet. Part of the London International Jazz Festival; 7.15pm; Nov 17

■ NEW YORK

AUCTION Sotheby's Tel: 1-212-605-7000

■ Fall Sale of Contemporary Art: highlights include the Roy Lichtenstein painting "Emeralds"; Arshile Gorky's "Scent of Apricots on the Field" as well as two works from the private collection of Mr and Mrs Asher B. Edelman, Jasper Johns

and Untitled Paintings; exhibition of paintings as well as sculpture from early in the career of the Scottish artist alongside more recent work; from Nov 15 to Jan 7

■ PARIS

CONCERT Maison de Radio France Tel: 33-1 42 30 15 16

■ Robert Frank: Moving Out: a retrospective of this Swiss-born American artist who profoundly influenced photography and filmmaking in both the United States and Europe after the second world war; from Nov 18 to Feb 11

■ MARSEILLE

CONCERT Opéra de Marseille Tel: 33-81 55 00 70

■ Radu Lupu: the pianist performs works by Beethoven and Schubert; 8.30pm; Nov 17

■ MUNICH

CONCERT Philharmonie im Gasteig Tel: 49-89-430980

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■ PARIS

CONCERT Concert Hall Tel: 1-202-467 4600

■ Mitsuko Uchida: the pianist performs Schubert's "Sonata in A major" and "Sonata in B-flat major" and Schoenberg's "Suite"; 8.30pm; Nov 15

■ WASHINGTON

CONCERT Concert Hall Tel: 1-202-467 4600

■ Mitsuko Uchida: the pianist performs Schubert's "Sonata in A major" and "Sonata in B-flat major" and Schoenberg's "Suite"; 8.30pm; Nov 15

### Obituary

## COMMENT &amp; ANALYSIS

Europa · Michael Stürmer



## A defence initiative

Chirac's offer to share nuclear strategy with Germany may shift weight towards a common European defence policy

In most cases, bombs are instruments of destruction, not of building. But nuclear weapons are different: they are political weapons, and have been the foundation of alliances and the international order.

The division of the world into two camps in the 20 years that the Berlin wall was standing was structured in the grim shadow of nuclear weapons. The two superpowers, while opposed to each other on a thousand scores, agreed on two essentials. They believed strongly in the notion of progress towards a better future. And they agreed that they wanted to avoid direct confrontation at any cost.

What are the implications for Europe of Mr Jacques Chirac's recent offer to Germany of *dissuasion concertée* - sharing nuclear strategy without sharing nuclear weapons? The French president's offer might be seen as merely a gesture to limit the reaction from the nuclear tests at Mururoa, in French Polynesia. Or it could be presented as an attempt to repeat in Europe what the US did by extending its nuclear umbrella through the Atlantic alliance: that is create a single security space with a common strategic approach and a unified leadership.

One consequence of Mr Chirac's initiative might be to force the Europeans to be more businesslike in establishing a common foreign and security policy, still stuck on the Maastricht drawing board. Without such a policy, the weight and responsibility of European nuclear strategy would fall on the shoulders of the nuclear "haves" - France and the UK - and exclude "have-nots" such as Germany. This would undermine any attempts to adopt a common European approach to all matters of strategic importance and could destroy hopes of progress at the forthcoming intergovernmental conference.

It is also possible that the Germans might conclude that

*dissuasion concertée* would deliver not a bargain, but a loss of strategic security. In 1954, a year before Chancellor Adenauer's German joined the western strategic alliance, German rearmament was made conditional on the renunciation of national production and possession of nuclear, biological and chemical weapons. This was both to reassure Germany's neighbours and to lay to rest the Germans' fear of themselves. In 1957, however, a secret agreement was signed by the French, German and Italian defence ministers to study and, perhaps, develop nuclear devices. In his memoirs, Franz Josef Strauss, German defence minister at that time, said the guiding principle of this agreement was to give Germany a measure of control over its own fate.

When General de Gaulle, French leader at the end of the second world war, returned to power in 1958, he recognised western Europe was a single strategic space. But he also realised that control of nuclear weapons is hard to share, or as he put it, "*le nucléaire se partage mal*". French nuclear weapons were never used in anger, but they helped both to ensure that Washington never ignored French strategic interests and to calm France's misgivings over its past treatment.

**A consequence of the initiative might be to force the Europeans to be more businesslike in establishing a common foreign and security policy**

With the cold war over, the role of nuclear weapons has yet to be ascertained. They no longer determine the world's strategic architecture. But they continue to be the grandest attributes of power, possessing them gives entry to an exclusive club, even though nuclear states know they will probably never be used. And they are still the ultimate means of deterrence against nuclear, biological and chemical blackmail and warfare.

In 1990, Germany renewed its renunciation of the production and possession of nuclear, biological and chemical weapons. What could the latest French offer give the Germans that they do not already have through US extended deterrence?

The answer is, very little and very much. Very little, because the residual nuclear

Michael Stürmer is director of Stiftung Wissenschaft und Politik, a German foreign affairs and defence policy institute.

*From Mr Anthony H. Wild*

It was still remembered in Paris, for example, that in 1919 the US had refused to endorse French hegemony on the European continent. And that in 1940, when France was blitzed, the British evacuated their troops via the beaches of Dunkirk. There were also memories of Yalta, when President Roosevelt seemed ready to cede European dominance to Stalin. Fresher still was the disappointment over Suez in 1956, when the French felt deserted by the US.

The French independent nuclear deterrent was never as independent as it looked. It rested on massive input of US expertise, and was never aimed at replacing the US nuclear umbrella. It guaranteed France strategic reassurance a place at the arms control table, a role in world affairs not warranted by French economic performance, and some balance against Germany's economic ascendancy. As General Alcide, President de Gaulle's adviser on nuclear strategy, once remarked, in a political speech, it was not Moscow or Washington that "French nuclear weapons were aimed at".

Some will be worried that *dissuasion concertée* could encourage the US eventually to shed its European concerns and take the road to nuclear isolationism. But this is unlikely, as long as Europe's strategic importance for the US is understood on Capitol Hill and in the White House. It is through the US alliance that the Europeans receive reassurance. But it is through the European alliance that the US is the world's sole remaining superpower.

For Germany, *dissuasion concertée* would not secure backdoor entry to the nuclear club. It would be a European parallel to the solution found in Nato in 1968, whereby Germany participates in the organisation's nuclear planning group. This still offers the best of two worlds: the innocence of non-nuclear status and participation in the councils of the nuclear "haves".

Thus, Germany's polite response to Mr Chirac was that *dissuasion concertée* is an interesting idea, not for today but for tomorrow, it will not upset Europe's balance. But it may well shift some weight in the right direction - towards a common European defence policy.

James Maughan, MRA programme, Inseed, Boulevard de Constance, 77305 Fontainebleau, France

*From Mr James Maughan*

Sir, I seriously hope that British hoteliers will ignore the Confederation of British Industry's report and recommendations to shadow France and Germany's costly benchmarks of training and refurbishment ("British hotels 'value for money'", November 6). Envious of British profitability, the French and German hotels should rather follow British benchmarks.

The CBI fails to grasp what are the value factors in hotels (what customers want and are willing to pay for). Formula 1's

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be based to +44 171 873 5938 (please add "to me") e-mail: letters@ft.com. Translation may be available for letters written in the main international languages.

## Fragmentation is a strength in drugs market

From Mr Anthony H. Wild

Sir, Your article "Drug deals set for friendly future" (November 10) mentions "even after the deals done so far, the pharmaceutical sector remains extraordinarily fragmented by comparison with other global industries". This argument is perhaps off the mark insofar as one needs to look closer at the definition of "market". The total pharmaceutical sector contains literally hundreds of markets, each totally separate. One company, for example, could successfully dominate in the oral antibiotic market while still having a small overall share of the sector.

To take a parallel: within, say, the transportation industry there is a multitude of

successful companies, but to say that, for example, United Airlines or Volvo Cars has a small share of this total industry is maybe technically correct but misses the point.

More relevant is how competitive a company is within its chosen segments or niches of an overall sector.

To be successful in today's fiercely competitive pharmaceutical industry, one needs three things. First, strong positions in the main therapy areas one is in (such as oral antibiotics or anti-epileptic agents); second, sufficient marketing muscle to maintain or expand these shares; third, the R&D capability to discover and develop new compounds.

In all three senses size is helpful, but can also be exaggerated. An R&D budget of several hundred million dollars is probably needed but the mega companies with their billion-dollar-plus budgets have yet to prove that the sheer weight brings innovation, as the somewhat disappointing recent innovation record of some of the largest pharmaceutical companies shows.

Even in terms of marketing muscle, large companies tend to have multiple sales forces to handle them, hence reducing potential economies of scale.

Finally, another argument against sheer size comes from the fact that even very successful drugs rarely sell

more than a few hundred million dollars worldwide, with only a handful of \$1bn-plus drugs in existence. Thus, a company with a turnover of \$100 to \$700m needs to produce one or more blockbusters every year to maintain reasonable growth rates, a tall order for any R&D lab.

For these reasons, it is quite possible for pharmaceutical companies with "only" 1 to 2 per cent shares of the total pharmaceutical market to survive and prosper providing they are capable of discovering truly innovative new drugs.

Anthony H. Wild, president, North America, Parks-Davis Inc., 201 Tabor Road, Morris Plains, New Jersey 07450, US

*From Mr Robin Pedler*

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Tuesday November 14 1995

## Waigel's Emu conditions

What is the recipe for economic and monetary union (Emu)? First, the European Union agrees a treaty on Emu, which contains ambiguous convergence criteria on fiscal policy. Second, the EU's most powerful country seeks to define what these criteria mean. The result: a dish that takes years to bake and will never be digestible by more than a few.

Not long ago Mr Theo Waigel, Germany's finance minister, suggested that Italy and Belgium were unlikely to be included in Emu's first wave. Now he proposes a "stability pact" among the prospective members. Under this, a non-interest-bearing deposit of a quarter of a per cent of gross domestic product would be paid for each percentage point that a country's general government borrowing requirement exceeded the Maastricht treaty's "reference value" of 3 per cent of GDP. Should the deficit exceed 3 per cent for two years, this deposit would metamorphose into a fine.

The broad notion is already contained within the treaty (in article 104c.11, to be exact). Mr Waigel's proposal is merely more specific and more automatic. But this does not make it any less explosive.

If, for example, the UK had been a member of such an Emu since 1991 – when it met the fiscal criteria – it would have made deposits of more than 3 per cent of GDP by the end of this year, of which two-thirds would be by then a fine. France, which also met the fiscal criteria in 1991, would have made deposits equal to 2½ per cent of GDP by the end of 1995, half of which would have become fines.

### Each-way bet

For the UK, the deposits would have been £22bn, equal to 10p on the basic rate of income tax in one year. Mr Jean Arthuis, the French finance minister, has endorsed the idea of a stability pact. But whether his country would tolerate Mr Waigel's suggestion, or the proposed move to a deficit of 1 per cent of GNP in normal times, is a different matter.

For Mr Waigel, these proposals represent an each-way bet. If they are accepted, he can tell a sceptical German public that he has secured a Euro-currency as stable as their beloved D-Mark. If they

## Croatian peace at gunpoint

To general relief, a third Croatian offensive has been avoided. Thanks to an agreement signed on Sunday, Croatian forces will not sweep into eastern Slavonia this month, driving out the Serb population as they did in western Slavonia in May and in Krajina in August. It is not true, however, that this agreement has averted war between Croatia and Serbia. On the contrary, it could be reached only because Serbia's president, Slobodan Milosevic, made clear to the local Serb leaders there would be no such war: he would not come to their rescue, any more than he rescued their compatriots further west.

That left them no choice but to make the best terms they could, with the help of the UN mediator and the US ambassador. Those terms involve a one- or at most two-year delay before the region passes under full Croatian control. The UN Security Council is to establish a transitional administration which will govern the region during that period, and "authorise" an international force which is supposed to demilitarise it within 30 days. Local Serb militias will thus be disbanded, while the Croatian army will be waiting to move in as soon as the transitional period ends.

Croats driven out of the region in 1991 have the right to come back and reclaim their property, which in many cases is now occupied by Serb refugees from other parts of Croatia. Those Serbs have the right to "live" in the already crowded region, but where is not explained. The agreement would make sense only if Croatia were actively encouraging them to return to their original homes.

### Serb flight

Unhappily, the opposite is the case. The vast majority of the Serb population fled before the Croatian army in both western Slavonia and Krajina. That is itself might not be Croatia's fault. Flight is a sane and normal reflex for civilians caught in a war zone. Croatian spokesmen abroad have claimed that those who fled are welcome to come back. But actions on the ground tell a different story. Many abandoned homes were torched, and atrocities were

are rejected, he can warn Germany's partners that their spirit may be willing, but their flesh is too weak to bear the weight of German rectitude.

Yet Mr Waigel is not just playing political games. He is also explaining why the Germans demand political union. The logic is simple: fiscal discipline is a necessary condition for monetary stability; steep fines are needed to preserve such discipline; only a federal polity could legitimately impose them; thus a federal union is necessary for Emu.

**Some false premises**

The logic is impeccable. But at least some premises are false.

Fines do not seem a particularly good way to preserve fiscal discipline, since they must make the problem still worse in the "no bail-out" clause in the treaty would seem far better.

More important, monetary stability does not require fiscal deficits of any given size. Look at the experience of the UK in the 1990s.

Fiscal deficits rose to 8 per cent of GDP and the ratio of public debt to GDP doubled. But inflation fell from 10 per cent to 2 per cent.

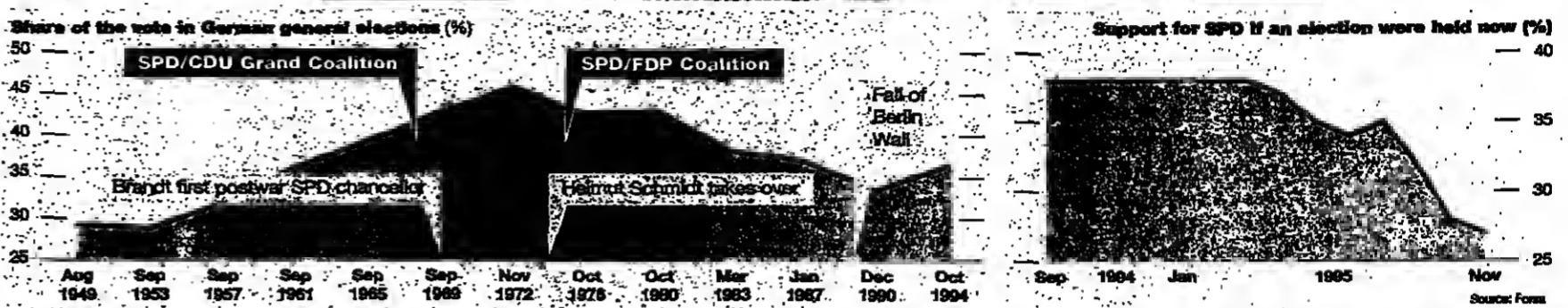
It may be argued that fiscal deficits in one member raise interest rates for all the users of a currency. But US fiscal policy has – and will retain – far greater impact on Europe's interest rates than those of the Netherlands, Austria, or even France.

Tight control over fiscal deficits is not just unnecessary, but damaging. Emu must already operate without fiscal transfers in response to regional shocks, without more than minimal flexibility in real wages and without more than modest migration across borders. To this is now to be added the stipulation that members cannot make more than modest variations in their own borrowings.

Mr Waigel's suggestions are a faithful reflection of German opinion. This makes them significant, but all the more worrying. Economically, what he proposes is not necessary. Politically, it appears infeasible. Mr Waigel may believe he is adding footnotes to Maastricht. What seem to be re-emerging, instead, are longstanding German demands for something much more radical.

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## COMMENT &amp; ANALYSIS

Helmut Schmidt (above)  
Willy Brandt (right)Gerhard Schröder (above)  
Rudolf Scharping (left)NOW  
Source: Forsa

## Crunch time in Mannheim

**G**ermany's opposition Social Democratic party is in crisis. The SPD party congress, which begins in Mannheim today, will look back on a year of internal feuding and bitterness following Chancellor Helmut Kohl's narrow general election victory of October 1994.

Support for Germany's oldest, and still biggest, political party has fallen to its lowest level since the early 1950s. According to Mr Franz Müntefering, the SPD's new secretary general, the Mannheim meeting "must prove that the SPD has the power to help shape the political agenda and create order in its own ranks". Ms Heidi Simonis, the trenchant SPD prime minister of Schleswig Holstein, has called for a "cleansing thunderstorm with winds of force 10 or 12" in Mannheim to restore peace to the party.

Last month, its poor showing in elections in Berlin hammered home the dire state of the party. In the postwar years, the SPD dominated politics in West Berlin, and one of the city's governing mayors, Mr Willy Brandt, went on in 1969 to become western Germany's first Social Democratic chancellor.

But with just 21.6 per cent of the vote, the SPD's performance in the Berlin elections was worse than the most pessimistic expectations. National opinion polls have done nothing to lift the party's spirits.

The most recent from the Forsa polling group put support for the SPD at about 27 per cent, down from the 30.4 per cent of the votes won in last October's election, and far behind the 47 per cent poll ratings now enjoyed by Mr Kohl's Christian Democratic Union and the Christian Social Union, its Bavarian sister party.

It is easy to pin the blame for the SPD's woes on the bickering among the party leadership. Mr Rudolf Scharping, the lacklustre SPD leader, has seen his authority undermined as other leading figures in the party have publicly cast doubt on his ability to mount an effective electoral challenge to Mr Kohl. But the fact that none of his detractors from Ms Simonis to Mr Gerhard Schröder, the populist and pragmatic prime minister of Lower Saxony, is directly challenging Mr

Scharping this week may be taken as a sign that personalities are only part of the SPD's problems.

A dwindling membership, declining support in former urban strongholds and an inability to find new supporters in the former communist eastern Germany show that the party is having real problems coping with far-reaching economic and social change in Germany.

Party membership has been in continual decline for nearly 20 years. While the party grew from 600,000 to more than 1m members between 1954 and 1976, the trend since then has been steadily downward to 850,000 in 1994.

The party has also been getting older. In 1974, the year that Mr Helmut Schmidt replaced Willy Brandt as the second SPD chancellor, nearly a third of members were younger than 35 years old and 23 per cent were over 50. By last year, only 15 per cent of members were below 35, while the over-50s had risen to 26 per cent. The SPD finds it especially difficult to attract young people between the ages of 16 and 25.

This predominance of the elderly in part reflects an inability to react to changes in the German economy and society. The SPD has failed to attract support in dynamic, fast-growing cities such as Frankfurt where banking and other services dominate the economy. Two decades ago, Frankfurt was an SPD stronghold. Now the CDU is the dominant party.

In a study prepared for the Mannheim meeting, Mr Günter Verheugen, until recently SPD secretary-general, said the SPD's image as the party of social justice was not sufficient for it to win support in regions of fast economic growth. Appealing to yuppies for solidarity

with the dispossessed fell on deaf ears "because unemployment in such regions is seen as personal failure and not as a threat to our economic future together".

But the party also has problems in its old industrial strongholds.

The decline of traditional industries such as coal and steel, and retrenchment in former growth sectors such as cars and aerospace have meant

that there are fewer unionised blue-collar workers to swell SPD ranks.

The SPD's overall poor showing in last month's Berlin election cloaked a disastrous performance in the former East Berlin. There it fell to third place behind the CDU and the Party of Democratic Socialism, the successor to the former east German communist party, which emerged as the strongest party in eastern Berlin with 35 per cent of the votes.

In Berlin, the SPD found its vote squeezed on all fronts. It had been in coalition with the CDU and so found it difficult to harness the strong current of protest in the east, which rallied behind the PDS. In the west, pro-administration voters backed the CDU, while voters disgruntled with the administration could turn to the Bündnis 90/Green party.

The practice of joining different coalitions in different German cities and states is proving to be a mixed blessing for the SPD. There are signs that blue-collar supporters have been alienated in cities and states where the party has gone into coalition with rival parties such as the Greens. For many workers in heavy, energy-intensive industries, Green policies to protect the environment are job killers.

On the other hand, the other parties also have problems, and the SPD is not without advantages. The success of Mr Tony Blair's Labour party in the UK and similar parties in other European countries shows that social democracy is not dead as a vote winner. The SPD was backed by 16 of Germany's 16 state prime ministers, giving it an important sources of patronage.

The CDU, for all its popularity, also suffers from falling membership. It is not only smaller than the SPD – with 690,000 members – but its age profile is worse: only 5 per cent of CDU members are under 30 and more than 35 per cent are over 60. The Free Democrats can look back on 12 defeats in state elections in two years: a performance which if sustained in important state elections next year, points to oblivion in the 1998 general election. The Greens, for all their high profile, are much smaller than both big parties with only 46,000 members.

But the SPD must do better in a highly competitive market-place. As traditional loyalties break down, voters realise that there is very little to choose among the main parties.

Chancellor Kohl's CDU, for example, has a powerful blue-collar faction whose representative in the cabinet, Mr Norbert Blüm, the labour minister, could often pass for a social democrat. The CSU, although generally regarded as to the right of the CDU, is proud of the words "social" in its title. In last week's budget debate, Mr Theo Waigel, the CSU leader and finance minister, trumpeted as an achievement the rise in German social expenditure to 31 per cent of gross domestic product in 1995 from 29 per cent in 1990.

Then there is the Bündnis 90/Green party, which addresses the concerns of many middle-class SPD voters and has, in Mr Joschka Fischer, the added advantage of a charismatic and effective performer in the Bundestag.

The narrow political spectrum and the internal bickering have made it difficult for the SPD to propagate its policies, although it has successfully raised its profile in the past fortnight by adopting a more sceptical approach than the government to the planned European economic and monetary union.

Amid a lot of anger and frustration, Mr Scharping will have to produce the performance of his life at the Mannheim congress to raise his own fortunes and those of his party. But even if he is successful, it will only be a beginning. The SPD must also develop convincing policies if it is to regain power at a national level.

### Generation game

■ Izzy Asper clearly believes in keeping the kids out of mischief. The Canadian broadcasting mogul's two sons and one daughter all work for CanWest Global Communications, the Winnipeg-based group he controls.

Until last week, it was Asper's eldest son David who was under the spotlight. He spearheaded UK TV, the consortium led by

CanWest, which bid for the UK's Channel 5 licence. Although UK TV was unsuccessful, David will be staying in Britain to explore other openings for CanWest.

This week, it's Len's turn. He has been put in charge of CanWest's C\$638m bid for WIC Western International, one of Canada's biggest TV and radio operators.

The deal, if it goes through, would turn CanWest into Canada's third national TV network.

So the next question must be: what Izzy has in store for Gail. A lawyer like his brothers, she is general counsel and secretary at CanWest's Winnipeg head office.

Izzy joked yesterday that, as the second generation in the family firm, "you're supposed to have a cushy job; you're not supposed to work". However, all three appear to be putting in the hours, presumably battling it out to succeed their father in due course.

Izzy Asper's son David is the son of

indication which of his offspring will get the nod.

Whatever must family get-togethers be like?

■ Safety first

■ An interesting role reversal at Japan's Nikko Securities. This was when blue-chip US and UK merchant banks seconded their brightest executives to act as advisers to wealthy Middle East institutions, such as the Saudi Arabian Monetary Agency (SAMA).

Now Japan's Nikko Securities has hired Dr Ahmed Abdullah Al Maliki, SAMA's former vice-governor, as a senior adviser. Although the sums of Middle

Eastern petrodollars are not what they once were, it is a reminder that SAMA has come of age. It is also a reminder, given Al Maliki's earlier connections in Saudi Arabia's ministry of defence, that international securities houses like Nikko have woken up to the fact that there is far more at stake in Saudi Arabia than money.

■ No coincidence that the

Nigerians chose the afternoon of the country's big football match with Uzbekistan to execute writer Ken Saro-Wiwa and eight fellow human rights activists. With Lagos even more than usually paralysed by traffic as the 200,000-plus crowd dispersed after the Nigerian victory, politics was the last thing on most minds.

South Africa's ruling ANC, most of the senior members of which spent their formative years in prison, has not taken long to cotton on. By cancelling Nigeria's invitation to take part in an Lyonsais? Business and politics do

international football tournament later this month, they have hit President Sani Abacha right where it hurts. It was not until South Africa's rugby and cricket teams were beaten from international competition that most white South Africans realised that the rest of the world was very unhappy with the way they were carrying on.

Funny the way history has a way of coming full circle.

### By the book?

■ The 37-year-old Russian-born writer Andrei Makine seems to be driving a truck through the French literary establishment with *Le Testament Francais*, an autobiographical account of a boy under the influence of both French and Russian cultures. Having already scooped up the most prestigious Prix Goncourt – the first time in the latter's 22-year-old history that a previously honoured work has made it.

Scaling the heights of French culture has not been an effortless exercise. The publishing establishment refused to take either of his first two novels seriously – suspicious as they were of Makine's extraordinary command of their language. In order to get their attention, Makine had to rewrite the books into Russian – and pass the French versions off as translations.

### 50 years ago

Revolt by shareholders We have on several occasions referred to the unsatisfactory character of certain features in the administration of the Costa Rica Railway. Discontent has for some time been displayed by the shareholders of that unlucky enterprise, but the Directors, instead of seeking to remove it by the natural process of meeting the just demands of their constituents, have

embarked on a policy of secrecy. Shareholders can and do put up with a good deal, but they draw the line at a Board of Directors which cannot reply to reasonable inquiries because the chairman is deaf. Consequently, when they could not get information, they withdrew in a body from said meeting. It will no doubt be gathered from our remarks above what martyrs to the shareholders' interests the Directors of the Costa Rica

Railway are. Let the shareholders should fail to appreciate this, the Board winds up its lengthy statement with a wail about the injury done to the Company "by the constant agitation which now attends the administration of its affairs".

Why in the name of goodness doesn't the Board seek to settle the matters in dispute in a reasonable spirit?

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# FINANCIAL TIMES

Tuesday November 14 1995

## Investment seeks to compete with Koreans Taiwan group to build \$368m plant in Scotland

By Laura Tyson in Taipei and James Burton in Edinburgh

Chung Hwa Picture Tube, the Taiwanese company which is the world's largest producer of cathode ray tubes, is expected today to announce a \$368m investment to build a plant in Scotland.

The plant will be Chung Hwa's first European investment, and is among the largest of such moves by a Taiwanese company in Europe. It follows big recent investments by rival Korean electronics companies in Europe.

Chung Hwa's plant, which is expected to employ about 3,000, will be a boost to the UK electronics industry. Scotland won the investment against competition from Ireland, France and other UK locations, including Wales and North Tyne.

The European market for cathode ray tubes, used mainly in computer monitors and televisions, is growing. The tubes have been in short supply since last year because of the growth in the personal computer industry, resulting in higher prices.

The plant will drastically shorten the lead times faced by many European computer manufacturers which import cathode ray tubes by sea from East Asia. It will also help reduce a shortage in the range of electronic products manufactured in Europe.

Once completed, the new facility in Lanarkshire will lift Chung Hwa's annual capacity to an estimated 30m cathode ray tubes from the 20m it expects to produce this year. The company has plants in Taiwan and Malaysia.

Chung Hwa is 91 per cent owned by Tatung, Taiwan's biggest electronics company and among the world's top 10 makers of personal computers. Tatung has a longstanding relationship with Packard Bell, a leading US

further measures today. However, Shell denied it had postponed a decision on the LNG project in light of the executions and the public protests they triggered.

The company said the decision was still on the agenda of tomorrow's monthly board meeting of the Nigerian Liquefied Natural Gas company, in which Shell is a 24 per cent shareholder. The meeting could lead to the signing of construction contracts before the end of the year, Shell said.

Although Shell did not make

Shell's UK staff lose out  
in job cuts \_\_\_\_\_ Page 3  
Foreign investors in no hurry  
to invest \_\_\_\_\_ Section 1

an outright commitment to proceed with the plant yesterday, its public statements continued to stress the benefits of the project for Nigeria. The recall of Nigerian envoys followed similar actions by several countries, including the European Commission and most EU member states.

EU officials said there was a strong mood among member states for tough action against Nigeria, but this did not extend to an oil or trade embargo. "There does not seem to be a consensus that the EU should go that far," an EU official said.

## Japanese PM admits corporate tax brake on recovery

Continued from Page 1

thought to be a factor in the property market's failure to recover.

However, the commission is not scheduled to report on corporation tax until the end of next year, said a finance ministry tax

official. The outcome of both reviews was as yet very unclear.

Yet Mr Murayama's remark does, according to officials, reveal a majority on the tax commission favours a cut in corporate tax to nearly 8 per cent of gross domestic product - leads the finance ministry to be even tighter fisted than previously. The budget "is in a grave situation and the scale

of the fiscal deficit is considerable," Mr Masayoshi Takemoto, the finance minister, reminded coalition partners yesterday.

To balance a corporate tax cut, the commission is considering widening the tax base by cutting or scrapping some tax exemptions.

**Europe today**  
A series of low pressure areas will dominate Europe. An active low will move into northern Scandinavia producing abundant snow over central Norway. Northern Sweden and Finland will have snow. The Norwegian coast will have rain as warmer air arrives from the ocean. Another vigorous low west of Ireland will bring unsettled conditions to the British Isles, France and the Low Countries. A third depression over Italy will bring heavy rain and thunderstorms to Italy, Greece and the western Balkan states. Portugal will have rain but eastern Spain will have sunny periods.

### Five-day forecast

Cold air from northern Europe will move south across the North Sea into the Low Countries during the next couple of days. Mild and humid air from the Bay of Biscay will try to move into western Europe leading to rain which could be heavy at times. Northern and eastern Europe will be unsettled with snow. Portugal and northern Spain will have occasional heavy rain.

### Today's temperatures

	Madrid	Beijing	Cairo	fair	31	Faro	shower	20	Madrid	fair	14	Rangoon	rain	30
Abu Dhabi	sun	15	Beijing	fair	15	Madrid	shower	15	Madrid	sun	15	Reykjavik	sun	22
Azores	sun	12	Berlin	cloudy	13	Geneva	rain	11	Madrid	sun	15	Reykjavik	sun	22
Aigues	fair	19	Bermuda	cloudy	14	Chicago	fair	12	Madrid	sun	15	Reykjavik	sun	22
Amsterdam	dizz	11	Bogota	shower	26	Cologne	dizz	10	Glasgow	dizz	11	Madrid	shower	17
Athens	fair	19	Bombay	sun	18	Dakar	fair	10	Glasgow	dizz	10	Madrid	shower	17
Atlanta	fair	18	Brisbane	dizz	11	Dakar	fair	10	Hamburg	sun	5	Melbourne	cloudy	21
Barcelona	fair	19	Buenos Aires	sun	17	Dakar	fair	10	Hamburg	sun	5	Melbourne	cloudy	21
Bilbao	fair	19	Buenos Aires	dizz	11	Dakar	fair	10	Hamburg	sun	5	Melbourne	cloudy	21
Bangkok	dizz	11	Chagres	sun	5	Dakar	fair	10	Hamburg	sun	5	Melbourne	cloudy	21
Barcelona	sun	17	Cape Town	sun	26	Dakar	fair	10	Hamburg	sun	5	Melbourne	cloudy	21

No global airline has a younger fleet.

**Lufthansa**

## Swiss help probe bribe claims over Canadian Airbus deal

By Bernard Simon in Toronto and Michael Skapinker in London

The Royal Canadian Mounted Police have asked the Swiss authorities for help in investigating allegations that bribes were paid during a large sale of Airbus aircraft to Air Canada.

The 1988 contract for the sale of 34 Airbus A320 aircraft, valued at about \$1.8bn (\$1.33bn), marked a significant breakthrough for Airbus Industrie, the European manufacturing consortium, in the North American market, which had previously

been dominated by US manufacturers.

Airbus yesterday denied the allegations that bribery had been involved in the Air Canada sale. It said: "The selection was made on the merits of the aircraft. We were not involved in any of the things that are being alleged."

Airbus, which is owned by Aerospatiale of France, Daimler-Benz Aerospace of Germany, British Aerospace and CASA of Spain, said unsubstantiated press and television allegations of bribery against it in the Air Canada sale had been made before. They had not been substantiated and had always been denied by the consortium.

The money was allegedly funnelled into Swiss bank accounts. The Swiss federal office for police affairs confirmed yesterday it had received a request for judicial assistance from the Canadian authorities. It said it had passed the request on to the federal public prosecutor's office, which had agreed to help.

Air Canada was a government controlled corporation at the time the Airbus order was placed. The then-Conservative government was the target of intense lobbying by Airbus, as well as by its two US competitors, Boeing and McDonnell Douglas. The Canadian government sold a 45 per cent stake in Air Canada in the same year the Airbus sale was made. The airline was fully privatised in 1988.

Numerous allegations and rumours have surfaced since the deal was completed, but none has been substantiated. DSB, the Swiss TV network, reported last weekend that unnamed Canadian politicians received large commissions from the Airbus deal. According to the report, a front company with a Liechtenstein post office box, had received commissions totalling CHF20m.

Both Spain, which holds the EU presidency, and the commission have indicated they want to see a strengthening of existing sanctions, imposed in June 1992 following a presidential election annulled by the military regime.

More restrictive measures, to be discussed today by member states and commission officials, include extending restrictions on arms sales to a full embargo and toughening visa requirements for civilian members of the government and their families.

EU officials said there was a strong mood among member states for tough action against Nigeria, but this did not extend to an oil or trade embargo. "There does not seem to be a consensus that the EU should go that far," an EU official said.

## THE LEX COLUMN Due credit

Investors never really believed that the US government would default on its debt, and yesterday's short-term fix appears to have proved them right. Still, the stand-off between Congress and the White House could undermine the status of US Treasuries as a virtually risk-free benchmark.

In assessing credit-worthiness, investors have tended to focus on ability to pay. On this basis, the US government is rightly viewed as the world's strongest credit. However, the readiness of both sides to stare into the abyss of default resurrects the issue of willingness to pay. The US constitution, with its checks and balances, may require a greater degree of political risk to be factored in.

To date none of the major rating agencies has downgraded the US. Given its capacity to repay, it would seem bizarre for the US to have a lower credit rating than Norway or Luxembourg. But IBCA, the European credit agency, said yesterday it would downgrade the US if it defaulted, even if normal debt service were quickly resumed.

This is sensible. Government bonds are generally considered better credits than companies in the same country because they are less likely to default. In fact, it is harder for investors to gain legal redress against countries than against companies. Investors tired of the game of blind may decide that they would rather pick up an extra 40 basis points of yield by buying German bonds, given the German government's better record on inflation, as well as budget-balancing.

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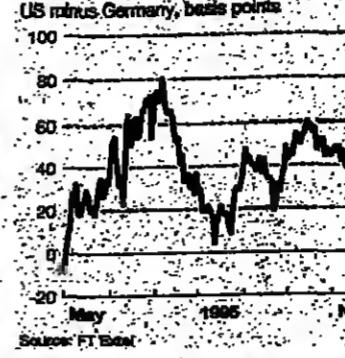
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### FT-SE Eurotrack 200: 1521.9 (-0.4)

### 10-yr benchmark bond yields

US minus Germany, basis points



Source: FT Data

world seeking to privatise their operators. Last month's offering for Spain's Telefónica suffered from muted demand from international investors, though not to the same extent as Indonesia's Telkom.

The second problem is that emerging market offerings have lost their shine. Not only have some prominent issues traded below their issue price, but, with developed stock markets, notably the US, still booming, many international investors are staying at home. Slashing the size of the Indonesian Telkom issue should reduce the chance of a poor performance in the secondary market. Even so, it is likely to cast a pall over other emerging markets and telecoms issues for some time to come.

**South Africa**  
Johannesburg's days as one of the world's least liquid stock markets are numbered. Last week's deregulation of the exchange - its "Big Bang" - marks another step in the gradual opening up of South Africa's economy to the world.

International securities houses - Deutsche Morgan Grenfell, Merrill Lynch and SBC Warburg among them - have been quick to snap up shares in the biggest local firms. They have not been paying the kind of prices seen in London in the mid-1980s, but even so they are unlikely to make quick returns. South African brokers have produced strong profits in the past, but margins will come under heavy pressure following the abolition of fixed commissions and the introduction of screen dealing. There is bound to be some fall-out, especially since

the new freedom for brokers to deal on their own account offers them the opportunity to lose big sums. Those who will prosper, others may go to the wall.

For securities firms taking a long view, the prospects should be good. The gradual abolition of exchange controls on residents' South Africans will lead at first to a fall in share prices, as institutions take advantage of their freedom to invest abroad. But cheaper shares should attract foreign capital. And overseas investors will have plenty of opportunities if the government succeeds in pushing through privatisations and breaking up South Africa's massive conglomerates. Once this process starts, Johannesburg's brokers should be kept busy.

**British Steel**  
Yesterday's record £550m profit from British Steel looks like the high-water mark of the current cycle. Prices of hot rolled coil, one of the principal steel grades, have dropped by nearly 30 per cent since the summer. European demand appears to be weakening and rivals like France's Usinor-Sacilor are cutting back production.

British Steel argues this is merely a pause in demand, though it admits current overstocking could take six months to clear. It has so far set its face against reducing output but, rather embarrassingly, its stainless steel offshoot Avesta Sheffield has already announced cut-backs of its own. Hopes that the group's low cost base will protect it in a downturn also look optimistic. While British Steel's efficiency compares well with other integrated European producers, it is no match for the mini-mills springing up in Asia and America. Moreover, with US steel prices some 20 per cent below Europe's, an important export market has been more or less closed off.

If profits do start to fall in 1996, this will put pressure on the group's aim to maintain capital spending and build up a cash pile of around £400m to protect the dividend. During the last recession, the group suffered a £700m cash outflow in three years and cut its payout to almost nothing. British Steel is in much better shape now, but this does suggest that the projected 7 per cent yield deserves to be treated with caution. Given the likelihood of more bad news on prices, investors should take a long-term view.

Lex comment on BAA, Section II



**Without us,  
British technology wouldn't  
have pride of place.**

The massive Airbus A340 landing gear designed and manufactured by Messier-Dowty, a joint venture between TI Group and Sncma Group of France, has already won a Queen's Award for Technological Achievement and has now been honoured by selection as the Science Museum's new concourse showpiece.

For weight optimisation and efficiency of production, the main fitting is machined from a single, 8 tonne, ultra high tensile steel forging. A 4-wheel articulating bogie increases the gear's effective length at take-off and landing and a unique mechanism shortens the shock absorber to fit the limited stowage space available. These innovations from the

Messier-Dowty team at Gloucester give the Science Museum a prize example of British technology.

Dowty is one of TI Group's three



## INTERNATIONAL COMPANIES AND FINANCE

## EUROPEAN NEWS DIGEST

**Alcoa to pay \$280m for Alumix activities**

Alcoa, the world's largest aluminium producer, has agreed to buy the principal operations of Italy's state-owned aluminium company, Alumix, for \$280m. The transaction is expected to close by the end of the year. Alcoa said the Alumix acquisition would complement its other operations in Europe. Alcoa will also acquire Alumix's 6 per cent stake in Halco Mining, an international bauxite-mining consortium, as well as two primary aluminium smelters at Portovesme and Fusina, which have a combined capacity of 170,000 metric tonnes per year.

Other Alumix assets included in the transaction are an aluminium rolling mill with annual capacity of 140,000 tonnes, four aluminium extrusion plants, six metal distribution centres in Italy, and sales offices in Germany, France, the UK, and Spain. Alumix has annual sales of about \$550m.

Mr Alberto Predieri, Liquidating Commissioner for Eni Partecipazioni e Finanziamento Industria Manifatturiera, the state entity that owns Alumix, said: "The strategic application of Alcoa's financial, technical and marketing resources to Alumix's highly respected core aluminium businesses... holds significant opportunity and advantage for our employees, customers and the Italian economy."

Laurie Morse

**Ferfin cash call 'about L950bn'**

Finanziaria (Ferfin), the Italian holding company, said yesterday that its proposed capital increase would raise between L945bn and L955bn (up to \$60bn) - less than the original maximum of L1,035bn. The amount has been adjusted because of changes in the group's capital structure. A further L95bn to L96bn would be raised if warrants were exercised, the company said.

Ferfin also brought forward the date of the shareholder vote on the controversial proposals, so the rights issue could be launched the following week. The meeting would now take place on December 7 - with December 8 and December 11 as alternative dates if insufficient shares are represented at the first meeting.

The new timetable might allow Mediobanca to delay an offer until after the rights issue. It also meant Ferfin's banking shareholders, some of which were strongly opposed to the planned capital increase, would have to break their traditional mid-December long weekend to vote: December 7 is a holiday in Milan, where the meeting will take place, and December 8 is a national holiday.

Andrew Hill, Milan

**Private sale likely for Marseillaise**

The French government yesterday gave the clearest indication yet that it would privatise Société Marseillaise de Crédit, the regional banking group, without resorting to a public share offer. Mr Jean Arthuis, the economics and finance minister, announced the beginning of a consultation process to select an investment bank to advise on the sale of Marseillaise de Crédit by a private sale. The news had been widely expected over a number of months, but officials have been focusing on a number of larger partial and full privatisations through share offers, including those of Renanit and Pechiney.

Mr Arthuis stressed yesterday that the process of choosing an adviser for the government - drawn from a short list of French and foreign banks - would not pre-judge when or under what conditions the privatisation of Marseillaise de Crédit would take place. His statement came after the government announced last week a replacement for Mr Jean Matout, its chairman for the past three years, who has been involved in its restructuring. Mr Pierre Habib-Deloncle, an activist in the ruling RPR Gaullist party, is to take his place before the privatisation.

Andrew Jack, Paris

**France launches privatisation of Pechiney stake**

By John Riddings in Paris



The French government yesterday announced it was launching the privatisation of Pechiney, the aluminium and packaging group, opening the public subscription period from today and setting a capital increase of FF13.5bn to FF14bn (\$820m) to accompany the sale.

Mr Jean Arthuis, finance minister, said the capital increase and the proposed regrouping with Pechiney International, the group's quoted packaging arm, would enable the company to strengthen its position as Europe's biggest producer of aluminium and one of its largest packaging concerns.

The government's advisers have indicated a non-binding price range of FF1187 to FF1215 for institutional investors. The range is at the lower end of market expectations, and would bring the state receipts of between FF13.5bn and FF14bn for the sale of its 56 per cent stake.

Market analysts said the terms of the offer reflected the government's concern to maintain momentum in its privatisation programme in the context of testing market conditions.

"Pechiney will probably be the last privatisation issue this year, so they are eager to make sure it goes smoothly," said one merchant banker.

But others warned that the operation could prove challenging. "This may not be an easy ride," said one metals industry analyst. The performance of previous French privatisation issues, most of which have seen their share price fall sharply, the weakness of the Paris stock market, which remains about 2 per cent below

levels at the beginning of this year, and the weakening of aluminium prices all present difficulties.

From today, the public can make non-binding applications for shares. The price will be set at the end of the pre-marketing period, due some time within the next few weeks, depending on market conditions.

The complex privatisation issue includes an exchange offer for shares in Pechiney International, which is 67 per cent owned by the parent company. Holders of non-voting investment certificates in Pechiney are also being offered shares in the group, losing dividends and privileges in return for voting rights. The performance of the investment certificates reflects the downturn in market sentiment. They closed on Friday at FF1285, compared with almost FF1400 earlier this year.

The capital increase is aimed at strengthening the company's balance sheet. Mr Jean-Pierre Rodier has pursued a thorough restructuring since taking over as chairman last year, raising proceeds of about FF110bn from the sale of non-core assets. How

ever, debts remain at about FF116bn, roughly the same level as equity.

The restructuring has focused Pechiney on its core businesses of aluminium and packaging and enabled it to return to profit this year. However, the company has faced criticism concerning the way it has accounted for some of its asset sales.

The Commission des Opérations de Bourse (COB), the French financial markets regulator, said that it "regretted" the fact that Pechiney had not taken FF1700m of capital losses incurred from selling two subsidiaries in its first half accounts.

The state will sell 5 per cent of Pechiney's shares to Électricité de France. It is the largest French client of the state utility, which has been expanding its strategic investments. In addition to EDF, Pechiney will have BNP and Assurances Générales de France as core shareholders.



Jean-Pierre Rodier: has pursued a thorough restructuring of the group

**Astra to increase spending on R&D**

By Clive Cookson, Science Editor

Astra, the fast-growing Swedish drug company, is increasing spending on research and development by almost 40 per cent this year in an effort to bring its lagging R&D budget into line with its soaring sales.

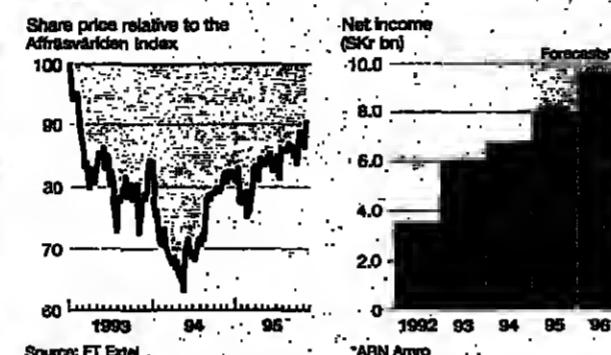
Mr Hakan Mogren, chief executive, said in London yesterday that Astra had spent about SKr3bn on R&D in 1994. The level would be increased by about SKr600m (\$903m) a year through the acquisition of Fisons's R&D centres in Loughborough, UK, and Rochester, New York, and a further SKr600m through internal growth.

There has been a corresponding increase in Astra's R&D staff from 3,000 last year to 4,200 now. Mr Mogren said Astra's R&D spending last year was 12 per cent of sales and "we are aiming for 15 per cent of sales".

The extra spending will be spread across Astra's priority areas: gastrointestinal (stomach and guts); cardiovascular (heart and circulation); central nervous system (brain and nerves); respiratory (mainly asthma); and pain control.

Sales themselves are growing at about 30 per cent a year, driven above all by Losoc, Astra's best-selling ulcer drug. "We have not been able to keep R&D expenditure

Astra



growing at the same speed," Mr Mogren said. "It cannot grow faster than 20 per cent a year [internally] because then you lose management grip on it."

The implication is that, for as long as Astra performs so strongly, it will look for more opportunities to buy R&D facilities or invest in research joint ventures with other companies.

The whole senior management was in London yesterday to give investors a review of Astra's R&D pipeline. Analysts liked what they heard, and Astra shares closed SKr2.5 up at SKr24.5 in Stockholm.

"Astra is always a very conservative company, but they are beginning to lift the curtain a little more now," said Mr Peter Laing of Salomon Brothers. "It was interesting that they made a feature of CNS (central nervous system) which I think is going to become an important product area for them."

The company has five CNS drugs in clinical development, including two to treat stroke victims. Mr Claes Wihlemsson, executive vice-president for R&D, said strokes had a very high priority. "Astra has committed itself to being the first company to make a real difference in strokes."

Astra is investigating several different approaches to keeping brain cells alive after a stroke has interrupted blood supplies to parts of the brain. Several other drug companies, including Upjohn Pharma, the recently merged US-Swedish group, are testing similar drugs. Stroke is regarded as one of the greatest unmet medical needs.

In the gastrointestinal area, Astra is becoming enthusiastic about a drug called Mosapride, licensed from Dainippon of Japan last year. Mosapride is in early clinical trials and could become a best-selling partner to Losoc; it treats dyspeptic symptoms such as nausea and bloated feelings.

In respiratory research, the company is concentrating on extending the use of its Turbulhaler, a dry powder system for getting steroids and other drugs into the lungs. A licence from the US Food and Drug Administration has been delayed by questions about the evenness of the doses delivered by the Turbulhaler, but Astra executives said yesterday they were confident that approval would come soon.

**Latin American growth helps rise at Telefónica**

By David White in Madrid

Strong growth in the Latin American telecommunications market helped Spain's Telefónica increase its attributable net profit 15.9 per cent in the first nine months of the year to Pt100.35bn (\$322m).

Consolidated turnover was 14.7 per cent up on the same period last year at Pt1,303bn. This figure included an increase of more than 80 per cent in revenue from the group's Latin American arm, Telefónica Internacional (Tisa), which reached Pt210bn.

Pre-tax profits before minority interests showed much stronger growth of 37 per cent at Pt169.47bn. The growth partly reflected a 63 per cent increase in financial income to Pt13.82bn, while financial costs were cut by just under 1 per cent to Pt167.27bn.

The results were in line with forecasts and continued the trend of the previous two quarters.

The company said a rigorous programme of cost containment contributed to the profit increase, with the increase in personnel costs held to 2 per cent. The workforce stood at 70,000, a reduction of 3.6 per cent over a year earlier.

Income from data transmission services fell almost 13 per cent to Pt30.24bn, largely reflecting price reductions.

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PT Telkom offer, Page 22

VEREINSBANK! NEW ISSUE AS OF NOVEMBER 10, 1995



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A supranational institution established according to a treaty between Kingdom of Denmark, Republic of Finland, Republic of Iceland, Kingdom of Norway and Kingdom of Sweden.

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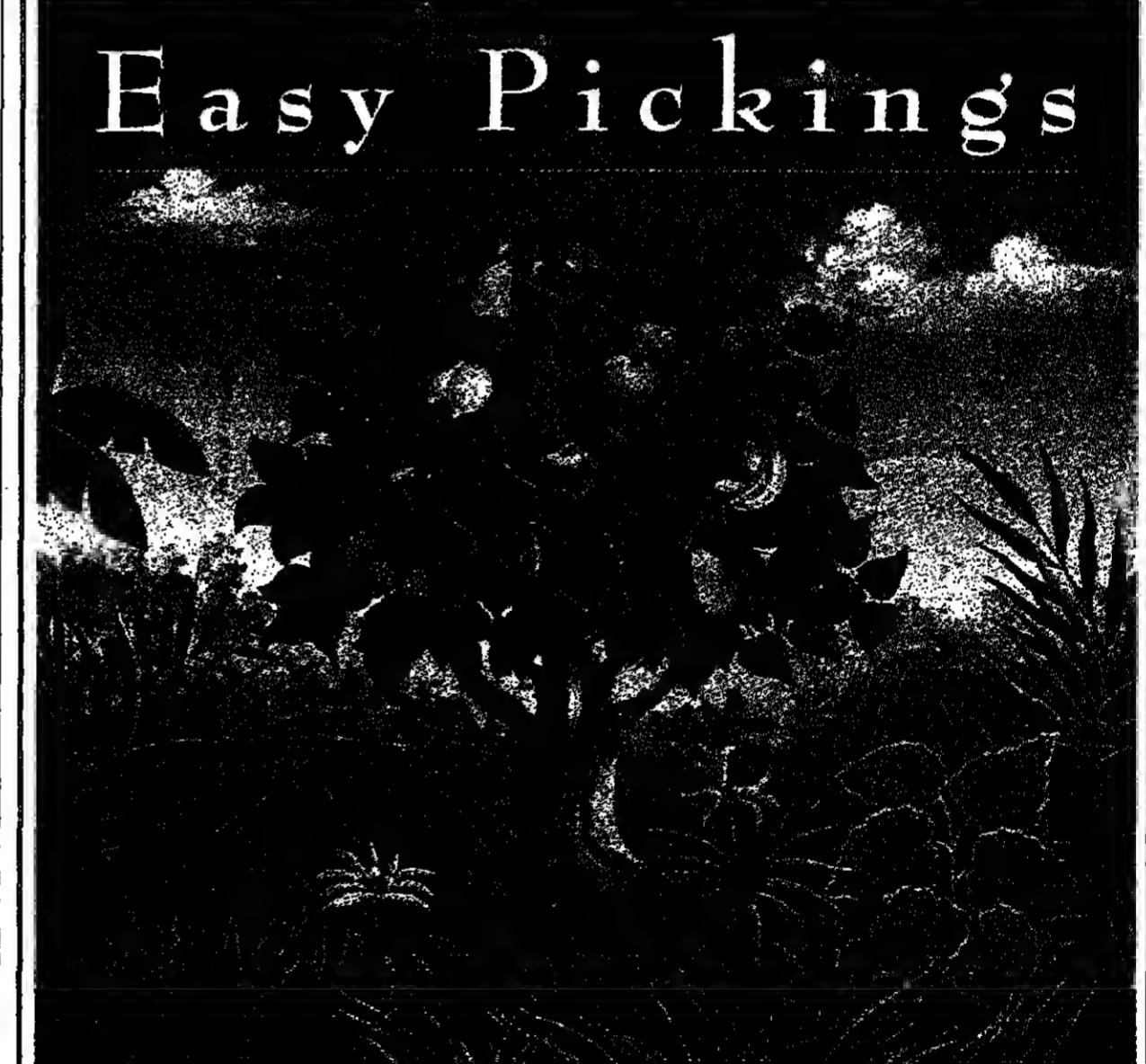
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## INTERNATIONAL COMPANIES AND FINANCE

**Schering blames third-period slide on withdrawal of drug**

By Judy Dempsey in Berlin

Schering, the German pharmaceuticals company, expects little improvement in profits and sales for the final quarter after a sharp fall in net profits and turnover for the first nine months of this year. Net profits fell 18 per cent, from DM210m to DM172m (\$122m), while sales declined 2 per cent, from DM3.52bn to DM3.45bn. Last year net profits reached DM285m on sales of DM4.88bn.

Mr Giuseppe Vita, chairman, yesterday said the poor results

stemmed from the one-off DM155m cost of withdrawing from the market Isovist 220, a contrast media product used in X-rays.

He also blamed currency fluctuations caused by the D-Mark's strength against the weaker US dollar and year which cost Schering DM30m in sales. The US market accounts for 17 per cent of Schering's total turnover and nine-month sales there rose 19 per cent over the year-ago period.

Mr Vita added that if there was currency stability next

year, with an exchange rate of about DM1.65 or DM1.70 to the US dollar, Schering might be able to recoup some of its losses and post a 10 per cent rise in sales.

But analysts said the current sales trends and forecasts for next year would mean Schering's 1996 results would only match the 1994 results. "These nine-month figures are really disappointing," said Ms Jo Walton, analyst at Lehmann Brothers. "Schering has been accident prone over the past year but maybe there are structural reasons as well.

Most of its business areas have performed badly," she added.

In diagnostics, sales fell 6 per cent, from DM1.2bn to DM1.1bn, largely because of the cost of withdrawing Isovist 220 after physicians reported delayed side-effects, especially skin allergies. Mr Vita said its other contrast media products, including Ultravist, could eventually compensate for the suspension of Isovist 220.

In the fertility and hormone therapy division, sales fell 3 per cent, from DM1.05bn to DM1.03bn. Analysts expect a further decline over the next

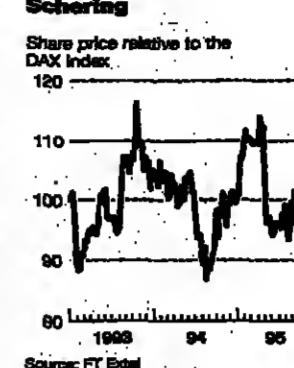
quarter because of the controversy by the British and German health authorities concerning possible side-effects of third generation oral contraceptives. In the dermatology division sales fell 5 per cent, from DM335m to DM322m on because of currency fluctuations and growing competition.

In the therapeutics division, which markets Betaseron, its multiple sclerosis drug, sales increased 9 per cent from DM79m to DM87m. Mr Vita said he was confident that once Betaseron was launched in Europe - possibly by the

end of this year - Schering could "aim to achieve worldwide sales for Betaseron" of about DM850m for 1996. This year's sales are expected to total DM280m.

But analysts were sceptical about these estimates as Betaseron's US sales were lower than expected and, unlike in the US, Betaseron will face competition in Europe from Biogen, the US biotechnology company, and the treatment's high European price may put off state-run health schemes. Schering shares closed DM0.95 lower at DM0.85.

## Schering



Source: FT Estat

**Argentaria bids for rest of Banco Exterior**

By David White in Madrid

Argentaria, the partially state-owned Spanish banking group, yesterday launched a Pta825m (\$755m) bid for the remaining shares in its principal subsidiary, Banco Exterior de España.

Its offer for the 26.6 per cent of Banco Exterior's shares that does not already own was set at Pta8.300 a share - a premium of almost 17 per cent on last Friday's closing price of Pta7.530. The CNMV securities market commission suspended trading in Banco Exterior as soon as the takeover plan was announced.

The cash offer, in which Morgan Stanley has acted as adviser, is aimed at reinforcing the Argentaria group before a further privatisation issue planned for early next year. The government plans to sell up to half of its stake of just over 50 per cent to domestic and international shareholders. Argentaria's shares closed up Pta10 yesterday at Pta4.210. The bank said the offer was not conditional on a minimum acceptance level.

The group said the takeover would have a neutral effect on Argentaria's earnings per share in 1996 and 1997 and a positive impact in 1998. By assuming full control of Banco Exterior it aimed to bolster its position in corporate banking, debt and money markets, investment banking and international activities.

The operation would enable the group to organise its resources more efficiently and achieve economies of scale, producing savings estimated at Pta40m a year, it said.

Banco Exterior, which had a monopoly in export credit before Spain's entry into the EU, was the centrepiece in the formation of Argentaria in 1991, when it was brought together with other state banking interests.

The group is meanwhile discussing the sale of Banco Exterior's holdings in two other banks, the majority-controlled Banco de Alcántara, and its 24 per cent stake in Banco Atlántico, controlled by Arab Banking Corporation.

**Kvaerner shrugs off sector malaise with 65% advance**

By Hugh Carnegy in Stockholm

Recent problems in the European shipbuilding industry were shrugged off yesterday by Kvaerner, the Norwegian shipbuilding and engineering group, as it reported a 65 per cent rise in profits for the first nine months.

Pre-tax profits rose from NKR1.17bn to NKR1.93bn (\$308m), but were boosted heavily by one-time sale of ships by Kvaerner's shipping operations which contributed NKR565m. Group sales rose 14 per cent to NKR22.1bn.

The shipbuilding division, the biggest in the group, sustained its recent record of strong profitability, increasing pre-tax profits from NKR25m for the period last year to NKR99m, on sales up from NKR7.9bn to NKR10.1bn.

Mr Erik Tonseth, Kvaerner's chief executive, said the structure of the company's shipbuilding activities - spread across several European countries including the UK, Finland, Germany and Norway - and its strategy of concentrating on niche markets for high-value, specialist ships, such as chemical carriers and cruise liners, explained the success.

"Our profile is very different from the Danish yards," he said.

Burmeister & Wain is build-

ing ships that compete with the Koreans and the Chinese. We only compete to a very limited extent with the Asians."

Nevertheless, Kvaerner's order intake fell sharply in the first nine months, leaving the order reserve down from NKR26.5bn at the end of September last year to NKR21.7bn.

The chief features in Kvaerner's other operations were a NKR70m pre-tax loss in its pulp and paper machinery division, against a NKR203m profit a year ago and in the oil and gas division, the second largest, a swing into pre-tax profit since DC-2 had only ever been powered by engines from Pratt & Whitney (P&W), the US company that is traditionally Rolls-Royce's fiercest rival, closed NKR3 up at NKR210.

Kvaerner's shares yesterday

**Anglo-German jet unit thrusts its way to front**

BMW Rolls-Royce has bucked the aero-engine market trend, says Michael Lindemann

A visit to BMW Rolls-Royce tomorrow, by Prince Charles, heir to the British throne, is the crowning moment after five years of effort at the Anglo-German aero-engine maker.

In that time the joint-venture, which makes engines for large corporate jets and regional aircraft, has become a startling success in an aero-engine market where there has recently been almost nothing but bloodletting.

The achievement involved large amounts of overtime, says Mr Albert Schneider, chief executive. It also meant coming up with some pretty unconventional new procedures to win clients for an engine that had not been made.

To do that, executives carried vital engine parts which had just been developed around the world in their suitcases. "We had to show them that we were actually working on something," Mr Schneider says.

Those pioneer days are almost over. BMW Rolls-Royce engines will power a new generation of corporate jets from Gulfstream and Canadair. Most recently the company locked horns with the rest of the aero-engine industry and won the struggle to supply engines for McDonnell Douglas's MD-82, the successor to the DC-9.

Since DC-9 had only ever been powered by engines from Pratt & Whitney (P&W), the US company that is traditionally Rolls-Royce's fiercest rival, it will be powered by an engine from the RR 700 family.

success was particularly sweet. Mr Schneider puts the venture's success down to a number of factors including a large dollop of luck because Gulfstream - an old Rolls-Royce client - and Canadair launched their latest corporate jets quicker than expected.

That said, it helped to have two well-known parent companies acknowledging as leading forces in their own industry. Long-term planning proved smooth because neither parent competes with other.

Starting afresh also helped because time did not have to be wasted reshaping existing hierarchies.

And the decision to build a single core engine, which remains the same throughout the different models, is likely to pay off. In 1990 it was "not a conventional" idea, hence some initial resistance from Rolls-Royce, but Mr Schneider is sure it will help the company's further success.

He is quick to point out, however, that contracts are not expected to continue flooding in as they have recently. "It can't go on like this every year," he says.

The search for new clients continues unabated. Tupolev, the Russian aircraft maker, is considering a new regional jet for which BMW Rolls-Royce has built the so-called benchmark engine against which all others will be tested. Mr Schneider is confident that if the Tupolev 334 ever takes off

it will be powered by an engine from the RR 700 family.

There are also links with Boeing, the world's largest aircraft maker, which is considering whether or not to build a 100-seater jet. Finally, Mr Schneider says, there are "close contacts" with Chinese and Korean companies which are also considering a new regional jet.

Whether this growth is profitable is another matter. Analysts are convinced BMW Rolls-Royce is offering hefty discounts to get a foothold in the market for larger corporate and regional jets, the two segments it has targeted. It remains unclear when the company will get a return on its DM2bn (\$1.42bn) investment.

Rolls-Royce provided only the engine-making expertise. Other observers point out that if BMW Rolls-Royce is to recover its investment it should be entering the large commercial jet market where demand for engines and spares is much greater. By about 2005 BMW Rolls-Royce hopes to have repaid BMW's DM2bn.

The recent deal with McDonnell Douglas swells BMW Rolls-Royce's order book to about DM2.1bn. Mr Schneider says the three existing contracts will result in at least 1,000 engines, and are enough to ensure the joint-venture breaks even. By about 2005 BMW Rolls-Royce hopes to have repaid BMW's DM2bn.

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The Anglo-German engine makers have no such plans, however, and Mr Schneider says

**The key to performance.**

Just as the key to the monumental temple gate of Augusta Raurica symbolized the power of the Roman Empire, our performance expresses the modern portfolio theory which supports our investment proposals. The biggest return on investment is not necessarily the best, your investment has to satisfy your personal objectives in every respect. It should reflect your strategy: either regular income or steady growth. At Swiss Bank Corporation we give top priority to identifying our customers' needs. Our investment specialists can call on a broad range of leading-edge financial instruments and on the research of our global network of analysts. They'll be pleased to advise you on the most advantageous investment portfolio for your assets.

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## INTERNATIONAL COMPANIES AND FINANCE

## IBM chief stirs debate on PCs

By Louise Kehoe in Las Vegas

The computer industry is on the threshold of a new "network-centric" era in which low-cost desktop and portable terminals will displace powerful personal computers. Mr Lou Gerstner, IBM chairman and chief executive, predicted yesterday.

Mr Gerstner, at the Comdex trade show in Las Vegas, said IBM was developing a "network appliance" that it planned to ship to selected customers in the first quarter of next year.

Adding to the industry-wide debate over the future of the PC, Mr Gerstner placed IBM firmly in the "anti-PC" camp, led by Mr Larry Ellison of Oracle Systems, the leading database management software company, and Mr Scott McNealy of Sun Microsystems, the market leader in workstations and Internet servers. On the "pro-PC" side are Intel, the dominant supplier of microprocessors to the PC industry, and Microsoft, the world's biggest software company.

The shift to network-centric computing would create new winners and losers in the industry, Mr Gerstner said, in a thinly-veiled challenge to Microsoft and Intel. The advent of very high speed communica-

tions technologies would change the way computers were used, enabling individuals to take advantage of the power of distant computers, rather than requiring powerful computers on every desk.

The "client-server" or distributed model of computing, on which the industry has been focused for the past 10 years, had fallen short of customers' expectations, Mr Gerstner said, because linking PC clients to servers had been more complex and expensive than expected.

Mr Gerstner said many organisations were waking up to the fact they had put the equivalent of a 1985 mainframe on the desks of every clerical worker, with all the maintenance, back-up and service costs now multiplied by the thousands.

Consumers, Mr Gerstner said, were "beginning to wonder if they were getting full value" from PCs. They were tired of having to upgrade their PCs every year.

Mr Gerstner's remarks do not appear to bode well for IBM's \$100 billion PC division, which is struggling to be profitable and reverse a decline in market share. However, he stressed that "the network-centric world will not replace the PC world entirely".



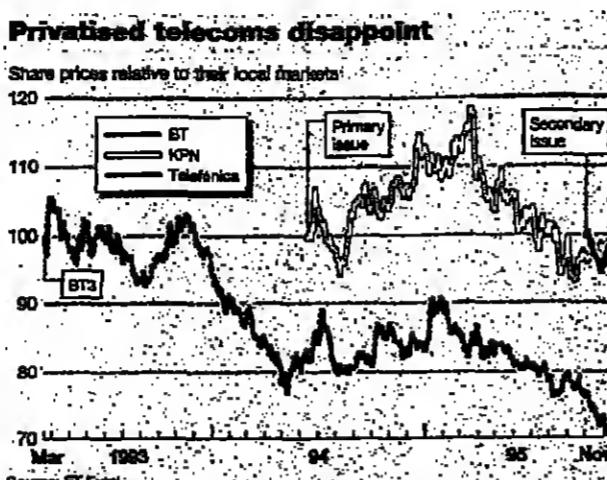
As the international roadshow for PT Telkom, Indonesia's telecoms company, drew to a close last week in London, its chairman Mr Setyanto Santosa, was putting on a brave face as he presented his company to prospective foreign shareholders.

But privately, he was so worried about the disappointing level of orders, particularly from the US, that he telephoned government officials in Jakarta to tell them he feared the international offering would have to be reduced in size.

The government was banking on a successful privatisation of PT Telkom to make up for the disappointing stock market debut of Tamhans Timah, the tin-mining company floated in October.

In addition, the privatisation of PT Telkom, which was set to raise between \$2.5bn and \$3.1bn, was to be Indonesia's and Asia's largest share offering to date and the first attempt to include domestic retail investors in the privatisation programme.

The government had initially planned to sell 70m American depositary shares (ADSs), which were each equal to 20 ordinary PT Telkom shares, to investors



Share prices relative to their local markets

being branded as a flop, the government's pragmatic approach has been applauded.

"The government has done the right thing," said one banker.

By contrast, its bankers have been criticised for failing to deliver the international orders they had promised; particularly from the US. US investors have turned away from foreign stocks to concentrate on their own expanding stock market.

Some bankers said this result should have been anticipated in view of the lack of interest from US investors in other international telecoms privatisations, notably Telefónica in Spain and KPN in the Netherlands, in recent months.

The banks were willing to underwrite a deal which comprised \$3.4m depositary shares at a price of \$18 each. But the government, which did not want to be seen to be selling off state assets at bargain prices, decided to sell only 30m shares at the new lower price.

This meant the final offer size was \$1.55bn, representing 19 per cent of the company, of which the international offering accounted for \$304m.

Although the decision to reduce the size of the offering has resulted in PT Telkom

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## AMERICAS NEWS DIGEST

## Moore in proxy battle for Wallace

Moore, the Canadian information services group, has launched a proxy battle for Wallace Computer Services in the hope of winning its three-month struggle to gain control of the Chicago-based group. Wallace has so far rejected Moore's US\$1.4m bid, even though holders of almost 74 per cent of Wallace's shares declared their support for Moore last week.

Moore earlier raised its cash offer from \$36 to \$60 a share.

Moore requires an 80 per cent acceptance to overturn Wallace's "poison pill", which prevents Moore from buying the shares tendered last week. Wallace's management is understood to be confident that some shareholders who indicated support for Moore last week did so for tactical reasons and would hold back in a final vote.

The management is adamant Wallace, which operates in independent companies, would be better off as an

independent company. About one-third of Wallace's shares are now in the hands of arbitrageurs seeking a quick profit. Most of the rest are held by institutional investors. Wallace shares were trading just above \$40 before Moore's bid in late July. Moore aims to use the proxies it collects to unseat Wallace's board of directors at its annual meeting, scheduled for December 8. Moore will also seek to reduce the size of Wallace's board and to rescind various board decisions.

Bernard Simon, Toronto

## Berkshire Hathaway growth

The per share book value of Berkshire Hathaway, the insurance and investment group controlled by Mr Warren Buffett, stood at \$15.556 at the end of the third quarter. At the start of 1995, it stood at \$10.083, and had risen to \$13.318 by the end of June. The book value was lifted partly by Walt Disney's agreed \$19m takeover bid for Capital Cities/ABC, in which Berkshire Hathaway holds a 12.9 per cent stake, in the third quarter.

Total shareholders' equity was \$16.2bn at the end of September, up 43 per cent from the previous 12 months. At the start of 1995, shareholders' equity was \$11.9bn and had risen to \$14.7bn by the end of the second quarter. Net income from operations rose 17 per cent from \$110m to \$129m in the third quarter, and earnings per share from operations rose from \$0.94 to \$1.02.

For the first nine months, net income from operations rose from \$322m to \$362m. The group said the increase was mainly attributable to good results from the insurance activity, partly offset by declines in the shoe and encyclopedia businesses.

Maggie Urry, New York

## Strike hurts Petrobras profits

Petrobras, Brazil's government-controlled petroleum monopoly, said net profits in the first nine months of 1995 fell from R\$1.27bn a year earlier to R\$622m (US\$23m), after losses of about \$700m resulting from a month-long strike by oil workers in May. Turnover in the period was R\$14.5bn, up from R\$13.9bn last year. The company's own activities showed a net loss of R\$74m, while subsidiaries generated net profits of R\$36m.

Petrobras blamed the poor showing in its core production and refining activities on the oil workers' strike, which brought the company to a near standstill. Losses were exacerbated by the need to import petroleum products during and after the strike.

Jonathan Wheatley, São Paulo

## CanWest launches bid for WIC

By Bernard Simon in Toronto

CanWest Global Communications, the Canadian broadcasting group, aims to cement a national TV network with a C\$63m (US\$47m) bid for Vancouver's Western International Communications.

A consortium led by CanWest earlier this month lost a bid for the UK's Channel 5 TV licence to CanWest, which is controlled by Winnipeg's Asper family, also has TV interests in Australia, New Zealand and Chile.

CanWest's interest in WIC centres on two Alberta TV stations. Control of these would give CanWest a presence in all

10 Canadian provinces if a pending application to take over a Quebec TV station is successful.

Mr Leonard Asper, CanWest's director of corporate development, said the deal would make CanWest a "vigorous competitor" against Canada's two other national broadcasters, the publicly-owned Canadian Broadcasting Corporation, and CTV, a privately-owned consortium.

WIC is a shareholder in CTV, but CanWest said it was not interested in retaining its shares. WIC owns a total of eight TV and 11 radio stations, mostly in western Canada, and has a stake in several speciality TV and satellite broadcast ventures.

CanWest hopes its bid will resolve a protracted dispute among WIC's biggest shareholders.

The family of Mr Frank Griffiths, WIC's founder, owns 62 per cent of Class A voting stock and 4 per cent of Class B non-voting shares. The non-voting stock makes up the bulk of WIC's equity.

The Griffiths' control has been challenged by Edmonton's Allard family, which bought a stake in WIC last year from Mr Griffiths' widow.

WIC shares have risen sharply in recent months as jockeying for control of the company has intensified.

All of these securities having been sold, this announcement appears as a matter of record only.

New Issue



## DE RIGO

8,900,000 American Depository Shares  
Representing 8,900,000 Ordinary Shares

(par value Lit. 500 per Share)

The New York Stock Exchange symbol is DER

2,670,000 ADSs

The above ADSs were underwritten by the following group of International Underwriters.

Merrill Lynch International Limited

Deutsche Morgan Grenfell

Credito Italiano

Cazenove & Co.

CS First Boston

Indosuez Capital

Schroders

6,230,000 ADSs

The above ADSs were underwritten by the following group of U.S. Underwriters.

Merrill Lynch & Co.

Deutsche Morgan Grenfell

Bear, Stearns & Co. Inc.

Alex. Brown & Sons  
Incorporated

Goldman, Sachs & Co.

Salomon Brothers Inc.

Dillon, Read & Co. Inc.

Montgomery Securities

Smith Barney Inc.

Sanford C. Bernstein & Co., Inc.

Cowen & Company

Ladenburg, Thalmann & Co. Inc.

Needham & Company, Inc.

Ragen MacKenzie  
Incorporated

Utendahl Capital Partners, L.P.

## S.G. Warburg Group plc

## Notice of Meeting of the holders of the 6.5 per cent. Subordinated Convertible Bonds 2008 of S.G. Warburg Group plc

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NOTICE IS HEREBY GIVEN that a Meeting of the holders of the 6.5 per cent. Subordinated Convertible Bonds 2008 (the "Bonds") of S.G. Warburg Group plc (the "Company") constituted by a trust deed (the "Trust Deed") dated 4th August, 1993 made between the Company and The Law Debenture Trust Corporation, p.c., will be held at a Registry Office, 12th Floor, 220 Bishopsgate, London EC2M 2PT on 6th November 1995 at 10.00 a.m. (London time) for the purpose of considering and, if necessary, adopting the Extraordinary Resolution in accordance with the provisions contained in the Trust Deed.

It is proposed to call a meeting of the holders of the Bonds at 10.00 a.m. (London time) on 6th November 1995, together with interest accrued from 4th August, 1993, and the date of the meeting will be 6th November 1995, at 10.00 a.m. (London time).

If no meeting is convened, notice of the meeting will be given in the Financial Times and the London Stock Exchange.

Further details of the proposal are set out in the Circular dated 14th November, 1995, copies of which are available from the offices of the Paying Agent and the Registrar.

Notice of the meeting will be given to the holders of the Bonds by the Paying Agent and the Registrar.

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## INTERNATIONAL COMPANIES AND FINANCE

## CSR profits slip 14% at midway stage to A\$193m

By Nikki Tait in Sydney

CSR, the Australian building materials, aluminium and sugar group, yesterday announced a 14 per cent fall in profit after tax but before abnormal items, to A\$193m (US\$12m) in the six months to end-December.

But it warned that second-half results would be affected by wet weather in Queensland which has delayed sugar-cane harvesting, and by hurricanes in Florida. As a result full-year profits would not match last year's A\$302.6m after tax.

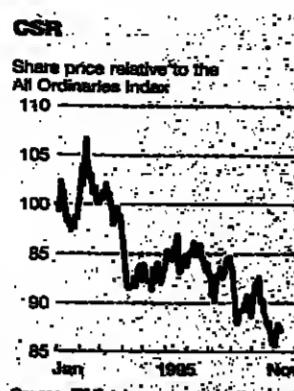
"Continuing weakness in the building and construction materials markets in Australia and lower world sugar prices will also affect our performance for the remainder of the year," added Mr Geoffrey Kells, managing director.

CSR's warning on the construction front were underlined yesterday when Amacon, a Sydney-based building group, was placed under the control of an administrator.

CSR shares fell three cents to A\$4.28.

First-half figures were scored on revenues of A\$3.31bn, up from A\$3.16bn in the first half of 1994-95, but operating profit before tax and abnormalities was down from A\$406.2m to A\$364.3m.

The decline came from the construction and building materials divisions outside North America, which made profits of A\$49.1m, against A\$80.9m and A\$55.9m, down from A\$74.5m, respectively as the Australian housing market



## Barlow maintains advance with 42% rise

By Roger Matthews in Johannesburg

Barlow Ltd, the South African industrial conglomerate, maintained its strong first-half performance to report a 42 per cent increase in net attributable profit to R528.1m (US\$45.29m), from R372.3m, in the full year to September 30.

Mr Warren Clewlow, Barlow chairman, said yesterday that all trading operations had been well positioned to take advantage of the favourable trading conditions during the year. With similar conditions overseas, he forecast another satisfactory performance in the next 12 months "with earnings growth exceeding 25 per cent".

The increase in South Africa's gross domestic fixed investment proved particularly有利 to the group and turnover from continuing operations rose to R15.85bn, an increase of 32 per cent from the previous year's R11.99bn.

A further improvement in operating margins, through focusing on production and cost control efficiencies and plant rationalisation, contributed to a 42 per cent rise in operating profit to R943.2m from R563.3m.

Earnings per share, excluding exceptional items of 4.3 cents, rose to 53.7 cents, an increase of 25.7 per cent over last year.

The final dividend is 58 cents a share which, with the half-year 26 cents, gave a total of 84 cents, an increase of 50 per cent on the full year.

The bright spots were the North American building materials interests which turned in A\$116.5m, up from A\$92.6m, and the aluminium division, which made A\$9.4m, against A\$6.2m.

In spite of the profits warning, CSR said it expected to hold the interim dividend at 14 cents a share.

After a A\$7.4m abnormal surplus - reflecting proceeds from the sale of a 25 per cent stake in its Asian operations to the Hong Kong-based Kuek group which were offset by Asian-related expenses - CSR's bottom-line profits were down 9 per cent at A\$204.1m.

## Pakistan food sector to receive boost from merger

Unilever Pakistan - a company to be formed by the merger of Lever Brothers Pakistan and Brooke Bond Pakistan, plans to invest up to Rs1bn (US\$2m) in the country's food sector.

The merger of the two companies, which are both controlled by the Anglo-Dutch Unilever conglomerate, would create Pakistan's largest company in the food sector, company officials say. The deal is due to be completed by the end of this year.

Lever Brothers sells personal products such as soap and shampoo, edible oil and tea, while Brooke Bond sells tea, spices and other food items.

"Pakistan's people have a record of being pretty 'savvy consumers,'" says Mr Anthony Crouch, the company's commercial director.

He described the investment plan as "a vote of confidence in Pakistan's basic economy", adding that projections for GDP growth suggest that an increasing number of consumers would be looking for the company's products during the coming years.

But the merger also reflects the need to halve the deal in profits and give the company a stronger presence in the domestic market, local analysts say.

During calendar year 1994, Lever Brothers' after-tax profits fell to Rs22m, down from Rs472m a year earlier. The company estimates that the newly-created Unilever Pakistan with a paid-up capital of Rs210m, would save up to Rs100m a year in overheads, management, financial and research costs.

Smuggling is another problem the new company will have to contend with. Tea sales have been hit by the smugglers who avoid up to 72.5 per cent duties on imported tea, which companies, such as Lever and Brooke Bond, have to pay.

A total of 130,000 tonnes of tea is sold annually across the

country but the sale of packet tea has dropped by more than 15 per cent during the past three to four years, largely because the sale of smuggled loose Kenyan tea has grown substantially.

Mr Crouch says "the merger will help us to defend ourselves in the tea market".

Part of the fall in profits during 1994 also resulted from a drop in sales of personal products because of competition from smugglers.

Mr Crouch is encouraged by the growth of Pakistan's narrow middle-class base with its "propensity to snack and spend". Almost half of the Rs1bn planned investment is expected to go towards the ice cream business where Lever Brothers has already invested almost Rs700m in a manufacturing plant, cabinets and trucks. Some eight months ago Unilever launched Pakistan's new Walls ice-cream line.

The company is also looking at plans to begin processing of tomatoes, an area where Unilever is already one of the world's leading processors.

"Our initial investigations show that there is a large urban market for ketchup here," says Mr Crouch. It is also considering processing vegetables, and at a later stage poultry and meat products.

Many local analysts say expansion into the processed food sector may present opportunities for export to the lucrative middle-east market. In addition some of the food items, such as vegetables and meat products, would clearly give it an edge on smugglers who are unlikely to be able to compete in such areas.

Mr Crouch is convinced the merger has accelerated the company's push into the food market. "A company needs a critical mass before it can expand. The merger will give us that critical mass."

Farhan Bokhari

## Hutchison Whampoa to buy Li phone business

Richard Li, younger son of Hong Kong tycoon Li Ka-shing, is selling his one-year-old Asian satellite phone business to Hutchison Whampoa, which is chaired by his father. Reuters reports from Hong Kong.

Hutchison said it was buying the Corporate Access satellite communications system from Richard Li's Pacific Century Group for US\$7.5m.

Mr Arnie Tucker, executive vice-president of Pacific Century Group, said the junior Mr Li "decided to sell the business as he would eventually have competed with Hutchison if he expanded". Mr Richard Li is deputy chairman of Hutchison.

In order to expand Pacific

Century Corporate Access in any significant way it would have to get into the paging and cellular businesses in Asia," Mr Tucker said. "It would basically put Pacific Century Group in a competitive position with Hutchison."

The unit, Pacific Century Technology Investments, provides satellite telecommunications equipment and services using very small aperture terminal technology marketed under the Pacific Century Corporate Access brand name.

Its selling point is that it links companies via satellite with their branches throughout Asia where telephone lines are often not available.

## Koor raises almost \$120m in successful IPO

By Julian Ozanne in Jerusalem



Koor Industries, Israel's largest and most profitable industrial conglomerate, said yesterday it had successfully completed its global offering with an international public offering in New York which was heavily oversubscribed.

The success of the issue, the first Israeli global offering with a dedicated European tranche, came in spite of the recent assassination of Prime Minister Yitzhak Rabin and should provide a boost to other Israeli companies seeking to raise finance on the international capital markets.

Koor said they had raised almost US\$120m, slightly below the \$130m-\$140m target, from the offering of nearly 7m American depository receipts. The issue was priced at the start of New York trading at \$17.25m per ADR.

Each ADR represents 20 per cent of the underlying share value. Yesterday's New York opening price reflected Koor's Tel Aviv share price which yesterday closed at Shk260.07, or \$36.40. Orders exceeded \$350m, making the offer oversubscribed almost three times.

Koor said the proceeds from its global offering will be used for investment in the company's core businesses and for the repayment of debt.

In an interview Mr Benny Gaon, Koor president and chief executive, said the success of the offering marked the strong international confidence in the company and in Israel's economy in spite of the assassination of Mr Rabin.

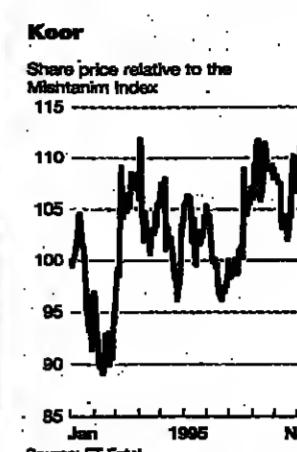
"We have made a tremendous breakthrough with this successful offer," he said. "It is a sign of investor confidence in Koor, in the Arab-Israeli peace process which is now irreversible and generally in Israel and its economy."

In a surprise move Koor subsequently reduced a tranche of shares allocated to Israeli institutional investors in the face of strong demand in the US and Europe.

The move was made in spite of the Israeli tranche being three times over subscribed and reflected irritation in the company that investors in Koor on the Tel Aviv Stock Exchange had driven the local share price down 18 per cent



Benny Gaon: offering marks international confidence



since the offering was announced in September.

Smith Barney led the global offering and the European tranche of 40 per cent of the shares was led by Union Bank of Switzerland. "It's gone very well," said Mr David Dwek of UBS. "The books were well over subscribed and there was good demand, particularly

from the UK and from Switzerland."

According to a recent valuation by Lehman Brothers yesterday's share price suggests the company is trading at a 24 per cent discount to net asset value per share and a price/earnings ratio of eight.

Koor has interests in electronics, telecommunications, chemicals, cement and tourism. The company has been in the throes of transformation recently, turning itself into a multinational concern and forging strategic partnerships with international companies.

Results for the first half to June 1995 showed a 16.2 per cent increase in sales from Shk4.5bn last time to almost Shk5.5bn (\$1.65bn). Net income rose 16 per cent to Shk300m.

Lehman Brothers have forecast revenues will grow by 13 per cent in 1995 and 14 per cent in 1996. Exports are expected to account for 35-40 per cent of total sales. Net profits are forecast to increase from Shk37m in 1994 to Shk43m in 1995 and to Shk50m in 1996.

Separately the company reported healthy third-quarter net profit of Bt118m, compared with a Bt14m loss during the same period last year.

Quarter-on-quarter profit fell 52 per cent and 57 per cent respectively from the first two quarters of this year, due to foreign exchange fluctuations and scheduled maintenance charges.

The company's nine-month net profit of Bt225m is more than 75 per cent of the company's own full-year profit forecast of around Bt925m.

## Thai plant purchase hit by power price wrangle

By Ted Bardecker in Bangkok

The purchase of a second power plant by Electricity Generating Company (Egat), Thailand's only publicly-listed power generator, is no longer expected to be completed by the end of this year.

Political wrangling over electricity prices has delayed the company's plan to raise about Bt21bn (\$835m) through a new share offering, bond issues and bank loans.

The delay is likely to hurt 1996 earnings, analysts said. They are also concerned that

Egat's 20 per cent internal rate of return on its first plant may be lowered for the second plant.

In July the company said it planned to issue about Bt6bn in new shares and take on Bt15bn in new debt to finance the purchase of an 824MW power plant.

The Bt20bn purchase from the state-owned Electricity Generating Authority of Thailand (Egat) was expected to be finalised by the end of this year, with the plant due to contribute revenue for all of 1996.

But the recent complaint from Mr Banharn Silaphacha, Thai prime minister, that electricity prices were too high has prompted Egat, which has a near monopoly on electricity purchasing in Thailand, to ask electricity suppliers to consider lower rates.

The government will not approve the sale of the Khamon plant, nor is Egat, which is 49 per cent owned by Egat, able to proceed with the planned purchase, until the rates issue is settled.

"Until we know what rates to expect, we can't conclude

## Bayerische Landesbank MONEY AND CAPITAL MARKETS

## FUTURES MARKETS SET THE TREND

The futures markets have assumed the role of "trendsetter" in the German bond market. As the volume of futures transaction expands, bond-market volatility increases. The German bond market has been sailing in the wake of international trends for several years, though its present course is different from what it was only two or three years ago. While the US bond market is still an important psychological factor, its influence on the German market has waned.

Its former role as a "trendsetter" has been assumed by the futures market: the course of the German bond market is now largely being determined by bond futures prices. The size of the bond futures market—the average daily volume in Frankfurt was 41,000 contracts in the first eight months of this year, with the volume in London two-and-a-half times as high—has caused the bond market to take on new dimensions, both as far as volatility and volume are concerned. Each single futures contract covers bonds with a value of DM250,000. This means that more than DM36 billion worth of public bonds change hands on each trading day.

Move in opposite directions In view of the size attained by the futures market for D-mark bonds, mood changes in this market have a disproportionately strong effect. This explains the swings—often unexpectedly wide—in the average yield on public bonds outstanding. Between early June and the middle of October 1995, for example, the changes in the average yield aggregated no less than 430 basis points, while the net change was a mere 24 basis points. Although US Treasuries and D-mark government bonds have kept more or less in step, the two countries' central banks moved in opposite directions. The US Federal Reserve began to cut the discount rate as early as in late 1990, while the Bundesbank tightened the monetary reins as of the following year. While the US discount rate was lowered from 7 per cent to 3 per cent (July 1992), thus reaching its lowest level since 1963, the German discount rate was raised to a historical high during the same period (8.7 per cent in July 1992). The tables were turned in the early summer of 1994. While the Fed had "frozen" the discount rate for almost 21 months, the Bundesbank had lowered it to 4.75 per cent. Since March 1994, the Fed has raised this key lending rate from 3 per cent to 5.75 per cent in four steps, while the Bundesbank has cut it to 3.75 per cent. It is interesting to compare the dollar's movements with those of the two countries' discount rates. The points where the German and the US discount rate met were turning points for the dollar. When in early 1991 the US discount rate, which was on its way down, and the

German discount rate, which was on its way up, met at a level just over 6 per cent, the dollar soon reached a medium-term high at DM1.83, followed by a fall in several stages to a rate of just above DM1.40 in early 1992.

Soon after the two discount rates had met again, which was in late 1994 (at that time the US rate was on its way up and the German rate on its way down), the dollar hit a historical low against the D-mark (DM1.3620 on 19th April 1995). Until two years ago, a rise in the D-mark's rate against the dollar had more or less automatically stimulated foreign demand for D-mark securities, thus providing an additional impetus to the downward trend in interest rates, while a fall in this rate had almost invariably brought on a decline in bond prices and thus a rise in yields.

The past two years, however, brought a change in the accustomed pattern. In 1994, the German bond market suffered one of the severest setbacks in its history, although the D-mark was strong relative to the dollar. The average yield on public bonds jumped from 5.41 per cent to 7.55 per cent; the yield on 10-year federal bonds and bank bonds climbed from 5.79 per cent and 6.14 per cent to 7.75 per cent and 7.95 per cent, respectively. Developments in 1995 also defied conventional wisdom,

though with signs reversed: the dollar found a floor after its drop to a historical low, but foreign investors did not turn their backs on D-mark securities. The undiminished interest in DM bonds is probably due to the fact that the D-mark's performance in Europe is increasingly eclipsing its performance against the dollar. In 1994, for example, when bond rates rose, the D-mark dropped, or stagnated, relative to the EMS or the EU currencies, while in 1995, when bond rates fell, the D-mark gained ground on most European currencies. In mid-October 1995, the D-mark's value against the currencies of the EU member countries was 5 per cent above the start-of-the-year level.

In summary, one can say that, in contrast to the preceding interest-rate cycles when the dollar had frequently set the course for the German bond market, currency trends within Europe and futures prices are now the major influences on the market. The inevitable result is, however, that due to the high volatility of the futures markets—the potential for fluctuations has increased. The futures markets' volatility, in turn, is a consequence of the frequent changes in economic expectations.

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**Bayerische Landesbank**

## COMPANY NEWS: UK

Group warns weaker international demand may hit future orders

## Price rises help British Steel

By Tim Burt

British Steel yesterday announced a near threefold increase in first-half profits but warned international demand for steel was weakening and could hit future orders.

Although increased steel prices pushed interim pre-tax profits up from £158m to £505m, the company said over-stocking by international customers would probably lead to a fall in deliveries in the second half.

Mr Brian Moffat, chairman

and chief executive, said the profits - achieved on sales of £2.99bn (£2.2bn) - were the best half year results ever recorded by British Steel.

The turnaround follows a big cost cutting and investment programme since the nadir of 1993, when full year losses reached £149m.

Mr Moffat admitted, however, that trading conditions had deteriorated since the summer. "The last quarter has seen an easing in demand due to over-stocking in customers' supply chains and, as a result,

a number of European producers have recently announced a coback in production."

British Steel said it would offset softening demand in Europe by exploiting "market opportunities" in North America and the Pacific Rim. It vowed to continue a programme that has reduced fixed costs by £250m over the past three years with measures aimed at saving a further £100m a year. "There are no plant closures in the horizon.

The integration of UES and other recently acquired businesses helped push the British Steel workforce up from 39,800 to 44,700 in the past year.

### RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (p)	Date of payment	Dividends corresponding to	Total for year	Total last year
BAA	6 mths to Sept 30	698 (680)	294 (265)	21.5 (19.2)	4.125	Jan 23	3.75	-
Baileys Gold	6 mths to Sept 30	8.57 (-)	8.881 (0.758)	35.21 (4.61)	-	-	-	10.125
British Steel	6 mths to Sept 30	2,955 (2,197)	550 (159)	19.26 (6.49)	3	Jan 15	2	7.5
Car's Milling	Yr to Sept 2	85.8 (90.6)	3.03 (1.56)	29.1 (14)	6.5	Jan 26	5	8.2
Cranbrook	6 mths to Sept 30	66.5 (56.3)	1.46 (1.31)	7.2 (6.1)	2.8	Feb 2	2.45	8.65
Critchley	6 mths to Sept 30	20 (17.2)	2.95 (2.35)	14.5 (12.3)	3.5	Jan 25	3	9.25
London Industrial	6 mths to Sept 30	8.4 (4.2)	1.75 (0.82)	9.5 (4.2)	4	Feb 1	3	10
Ramold	6 mths to Sept 30	87.3 (70.5)	8.1 (4.4)	9.8 (5.5)	2.5X	Jan 25	1.2	-
Reemay	6 mths to Sept 30	15.1 (15.3)	0.5374 (0.288)	2.56 (1.07)	1.3	Jan 19	1.3	3.4
Sidecar	Yr to Sept 30	282.2 (289.4)	0.11224 (0.288)	17.1 (20.2)	6.5†	Feb 2	8.5	11
Smith (James) Esq	6 mths to Sept 24	2.12 (1.65)	1.51 (1.24)	4.6 (4.1)	1.87	Jan 15	1.7	-
Trinity Care	6 mths to Sept 30	2.88 (2)	0.221 (0.30)	6.9 (14.6)	1.5	Dec 14	1.5	-
Utility Cable	Yr to Aug 31	79.5 (54.5)	5.04 (4.19)	2.41 (1.84)	0.39	Feb 15	0.323	0.84
Versatile	6 mths to Aug 31	31.3 (21.5)	1.34 (0.963)	0.357 (-)	-	-	-	0.223
Ward's Stores	Yr to Aug 31	94.9 (78.6)	7.18 (6.29)	18.8 (23.9)	12.25	Jan 4	12.25	17.25
Investment Trusts	NAV (p)	Administrative charges (p)	EPS (p)	Current payment (p)	Date of payment	Dividends corresponding to	Total for year	Total last year
Johnson Fry Utilities	-	-	-	1.78†	Jan 15	1.72	-	7.86
Schroder Split	-	-	-	1.83†	Dec 29	1.8	-	7.5

Dividends shown net. Earnings shown basic. Figures in brackets are for corresponding period. †US currency. †After exceptional charge. †After exceptional credit. †On increased capital. †On stock. †Foreign income dividend. †First interim. ††Third interim; makes 5.7p to date.

## Job losses as Trafalgar revamps Davy

By David Wighton

Trafalgar House, the lossmaking engineering and construction conglomerate, yesterday said 450 jobs would be lost as the result of a restructuring of the UK operations of Davy International, which had been acquired by British Steel Engineering Steels - renamed British Steel Engineering Steels - had exceeded expectations, as had Avesta Sheffield, its stainless-steel subsidiary.

The integration of UES and other recently acquired businesses helped push the British Steel workforce up from 39,800 to 44,700 in the past year.

The bulk of the losses in the UK will fall on Poole in Dorset where Davy's office will be closed. Of the 430 staff at Poole, about 200 will be offered jobs at Davy's facility in Sheffield.

The move forms part of another round of restructuring which the troubled group will announce with its annual figures next month.

Three weeks ago, Mr Nigel Rich, Trafalgar's chief executive, warned of escalating operating losses and substantial provisions, mainly in metals engineering.

With operations in 22 countries, Davy International has

predicted total losses of up to £200m for the year to September.

The shares slipped 1p to 23½p, compared with the

year's high of 76p.

be "considerably greater" than the £145m it lost in the six months to March. It indicated there had been a further deterioration at Davy International, which lost £11m in the first half.

Davy International, which designs and supplies equipment for steelmakers and other metal processors, joined the group as part of the ill-fated acquisition of Davy Corporation in 1991.

Whereas most of the rest of

Davy was integrated into

Trafalgar House, the

company's ability to increase

profits at about 10 per cent a

year has been checked.

As an investment, BAA has its

attractions. It offers a way into the strong growth of the airline

sector, without the volatility which price wars bring. And it

has the security of a utility but low regulatory risks. The

company does face a regulatory review next year, but since

UK landing charges are among the lowest in the world the

outcome of this is unlikely to be severe. In any case, less than

a third of the business is subject to price regulation.

The shares are still trading at a price/earnings premium to

the market, but this has shrunk to about 10 per cent. Given

the security of the company's UK business, not to mention its

long-term prospects overseas, this looks cheap.

### LEX COMMENT

#### BAA

BAA's share price has underperformed the market over the last year, and yesterday's strong set of interim results did nothing to reverse the trend. Some

adjustment in the company's previous extravagant rating was probably inevitable. But investors should start to ask whether the fall has gone too far. Except for a slight Gulf

War hiccup, BAA's growth

record since privatisation

has been consistently

impressive. Yesterday's

results suggest this will be

sustained. Despite competition

from Eurotunnel and a

bad summer for charter flights, the company is still expecting

growth of 5.6 per cent in passenger numbers this year. And net

retail income per passenger is still growing, by a comfortable

3.4 per cent against last year. There is no sign that the

company's ability to increase

profits at about 10 per cent a

year has been checked.

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the security of the company's UK business, not to mention its

long-term prospects overseas, this looks cheap.

**BAA raises £19m through disposals**

By Tim Burt

BAA Group, the engineering and industrial products company, yesterday further streamlined its industrial division by selling four subsidiaries for a total of £19m (\$30m).

The company declined to break down the disposal value of the latest businesses to be sold - three in the US and one in Britain - but said they had combined sales last year of £30m.

BAA, which has raised £325m from disposals in the past two years, said the sale of the non-core companies would enable it to concentrate on developing Reemay and Fiberweb, its fabric softeners, filtration and non-woven fibres businesses.

Hightams has been sold to Holdings Group, the Lancashire-based steel castings manufacturer, made pre-tax profits of £1.56m (£3.54m) for the six months to September 30. The figure of £2.38m (£2.37m), printed on November 11, was after tax.

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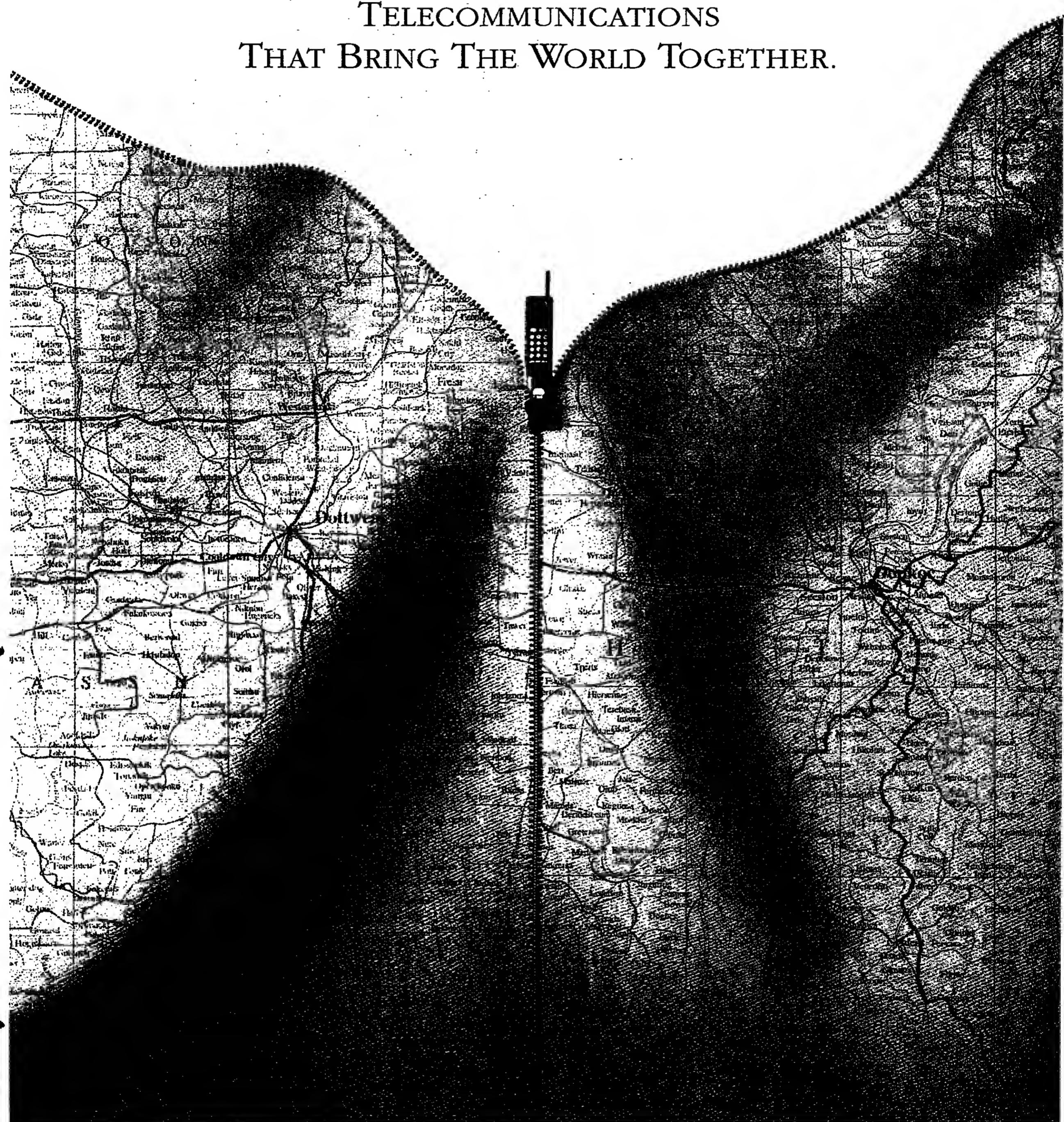
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## COMPANY NEWS: UK

## Retailing activities help BAA rise 11%

By Michael Skapinker, Aerospace Correspondent

BAA, the airports group, announced first-half pre-tax profits up 11 per cent from £265m to £294m (£465m), on turnover up 6 per cent at £288m (£260m), with retailing providing much of the growth. BAA now earns more revenue from retailing than from airport charges.

Retailing has been boosted by the opening last month of the world's first airport beauty centre at Heathrow airport's Terminal 1. It has also opened the first two airport Disney stores, at Heathrow and Gatwick.

Retailing revenue in the six months to September 30 rose 9 per cent to £29.1m. The biggest growth came from perfume sales. BAA's airports - Heathrow, Gatwick, Stansted, Glasgow, Edinburgh, Aberdeen and Southampton - account for over 20 per cent of the UK perfume market. Revenue from airport and other traffic charges increased 3.6 per cent to £28.3m. Property revenues rose 11 per cent to £104.9m.

Airport charges at the south-east airports were up nearly 6 per cent to £290m. BAA said the increase would have been 9 per cent had it not been for a



Sir John Egan (left), chief executive, and Russell Wats, finance director, with new designs for Terminal 5 at Heathrow Airport

phasing out of the differential charges between peak and non-peak periods.

Passenger numbers were 52m, up nearly 6 per cent. The group said that the rise would

have been over 7 per cent if it had not been for the start last year of the Eurostar cross-Channel rail services. The Paris market has been hardest hit.

## On course for the 21st century.



Announcing BAA's interim results, Sir John Egan, Chief Executive, said: "The message is a positive one. We're on course for the 5.6 per cent traffic growth we forecast and on course for good results this year. We face the Terminal Five inquiry with confidence that we have a powerful case. We have built a sound business and our approach will remain the same: continuous improvement, careful attention to customer needs, a constant search for greater productivity, and commitment to long-term thinking and appropriate investment. This is a company shaping up for the 21st century, a company the country can be proud of."

- Revenue up 5.6% to £698m
- Operating profit up 7.8% to £303m\*
- Pre-tax profit up 10.9% to £294m
- Earnings per share up 12% to 21.5p
- Interim dividend up 10% to 4.125p
- Passenger numbers up 5.8% to 51.9m
- (Airport charges income of £6.9m transferred to second half)

BAA plc yesterday announced a profit before tax for the six months to 30 September 1995 of £294m (six months to 30 September 1994: £265m), an increase of 10.9%. This was made up of an operating profit of £303m (£281m) and a profit on property disposals of £9m (£2m), less net interest cost of £18m (£18m).

Operating costs increased by 4.2% to £395m (£379m). Airport productivity (measured as passengers per

employee) improved by 4.2%.

Net borrowings of £909m reduced during the period by £23m and represented gearing of 29.8%, compared with 32.8% at 31 March 1995.

Passenger growth in the first half of the year at 5.8% was within the predicted range of 5-6% for the year as a whole. The performance of long haul markets, such as the North Atlantic and Far East, was well above the average, while European scheduled traffic was reduced by increasing competition from Eurostar services. The main area of weakness was the demand in the UK for Mediterranean holidays, reflected in declining European charter traffic

during the peak and late summer period. The number of transfer passengers at Heathrow and Gatwick grew sharply, helped by sterling weakness relative to major European currencies and the opening of new dedicated facilities for transferring passengers such as Heathrow's Flight Connections Centre.

Income from traffic and airport charges increased by 3.6% to £288.3m (£278.4m). Following the start of an extended programme to phase out the differential between peak and off-peak passenger charges at Heathrow, Gatwick and Stansted, this income was subject to a reduction of £6.9m in the 1st half. This figure is made up by a reduction of

## Lyonnaise des Eaux may offer £800m

By Christopher Price

Northumbrian Water and Lyonnaise des Eaux meet today amid expectations that the French group will table a bid of between £1.130 to £1.150 a share, valuing the north-eastern water and sewerage group at nearly £800m.

Yesterday, Northumbrian's shares closed at £1.18, up 7p. Sir Frederick Holliday and Mr Jerome Monod, the respective chairmen of Northumbrian and Lyonnaise, will be the only executives at the meeting, which is likely to be held at the London offices of Lazard Frères, Northumbrian's financial adviser, and attended by Rothschild, advised to the French group.

The offer will be considered at a board meeting on Thursday or Friday. However, the UK group, bolstered by well-received results last week, is thought to be seeking an offer nearer to £1.2 a share.

Analysts said the potential gap between the two sides was not so wide as to prompt the water sector's first hostile bid.

"Lyonnaise will try very hard to stop the issue going hostile," said one.

76% interim advance to £8.1m follows rise of 91% last year

## Renold boosted by specialist focus

By Patrick Harverson

Investment in new machinery and a strategy of focusing on specialist sectors continues to pay off for Renold, the Manchester-based chain and gear manufacturer, which yesterday reported a big increase in interim profits for the second year in a row.

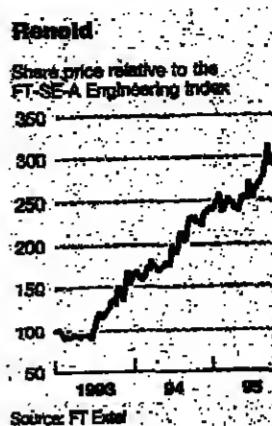
Pre-tax profits jumped 76 per cent from £1.6m to £8.1m (£12.8m) in the six months to September 30. At the same stage last year, the group announced a profits increase of 91 per cent. The results, which exceeded market expectations,

helped the shares rise 4p to 269p. Renold also announced that it would be the latest company to pay its interim distribution as a foreign income dividend. The FID scheme was introduced by the government two years ago to allow companies that derived a large proportion of their earnings abroad to relieve surplus advance corporation tax.

Renold, which said it would consider declaring future interim dividends as FIDs, added that part of the increase in the pay-out from 1.2p to 2.5p was to reduce disparity.

Turnover rose to £27.3m (£70.9m), aided by a £3.6m contribution from Manifold Industries, the gearbox manufacturer acquired earlier this year. Renold, which took a £400,000 charge to cover restructuring costs at Manifold, said the acquisition was already performing ahead of its targets.

A rise in raw materials costs failed to halt the improvement in operating margins, which climbed further to 10.3 per cent (7.3 per cent) in the wake of a redirection in Renold's sales mix towards higher-margin products.



Source: FTSE

## Bibby makes sharp recovery to £33m

By Tim Burt

J. Bibby & Sons has mounted a sharp recovery, replacing pre-tax losses of £10.7m with profits of £33.8m in the year to September 30.

The industrial group, 78 per cent owned by Barlow of South Africa, benefited from a better reorganisation last year - involving more than £30m of exceptional charges and restructuring costs - and sharply increased sales in Spain and Portugal.

Mr Richard Mansell-Jones, chairman, said the restructuring, dominated by the sale of the agricultural feeds business to Associated British Foods, had been largely completed, although Bibby still intended to wind down some minor manufacturing activities.

At the operating level, profits increased from £29.6m to £41m on reduced sales of £735.8m (£764.5m).

Mr Mansell-Jones said the improvement was fuelled largely by increased profits in the Iberian peninsula, where it sells heavy construction machinery and capital equipment.

That transformed losses of £965,000 into operating profits of £9.1m in the capital equipment division.

Earnings per share before exceptional items increased to 12.07p (6.8p). A final dividend of 4p makes 5.75p for the year. Last year the group paid a special 2p to cover the proposed flotation of some businesses, which took the total to 5p, despite the flotation being later aborted.

## Global Village Comms buys KNX in £18m deal

KNX, the UK's leading supplier of Windows-based ISDN cards - electronic devices used for high speed personal computer data communications - has been acquired by US-based Global Village Communications in a share-swap deal worth about £18m (£28m), writes Paul Taylor.

The KNX deal is the seventh involving British companies specialising in ISDN technology since March, and the fifth involving a US-based buyer. The US deals have been worth a total of £127m.

KNX was founded three years ago and is credited with a 44 per cent share of the UK market for PC-based ISDN cards - higher speed digital alternatives to modem communications devices.

£2.5m already reported for the 1st quarter and a reduction of £44m in the 2nd quarter. We expect that there will be a corresponding rise in income from airport charges in the 2nd half. This effect will be repeated in 1996/97 and 1997/98.

Gross retail revenue increased to £298.1m (£273.2m). Net retail income (excluding in-flight catering and other commercial income) increased by 10.0% to £203.3m (£184.8m). Net retail income per passenger grew by 3.4% to £4.10 (£3.96). The perfume sector made particularly strong progress, with an increase in net income of 23.4%.

Income from BAA's property portfolio rose by 11.0% to £104.9m (£94.5m).

INTERIM RESULTS	
6 months to 30 Sept 95	6 months to 30 Sept 94
Revenue	£698m
Operating profit	£303m
Pre-tax profit	£294m
Taxation	£72m
Profit after tax	£222m
Dividend payable	£43m
Retained profit	£179m
Earnings per share	21.5p
Interim dividend	4.125p
Net borrowings	£909m
Gearing	29.8%
	29.1%

For a copy of the full BAA interim results statement, telephone 0171 932 6654 or write to: Corporate & Public Affairs, BAA plc, 130 Wilton Road, London SW1V 1LQ.

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## COMMODITIES AND AGRICULTURE

## EU preparing potato disease battle plan

By Alison Maitland

European Union member states were yesterday discussing tough action to control a serious outbreak of the potato disease brown rot in the Netherlands, the world's biggest potato grower and exporter.

Brown rot is a bacterial infection that causes stains and eventual disintegration of the tuber and enters the soil. Affected fields have to be left uncultivated for at least five years.

The disease is usually found in warmer climates than the Netherlands and this is the country's most serious outbreak to date. It began in September and has now affected 38 farms, mainly in the north. The Dutch agriculture ministry is carrying out 1,300 tests on potatoes a day to try to stop its spread.

Other countries have taken national action to minimise the risk of importing the disease and are pressuring the Dutch to do more. German growers are concerned that the disease could easily be carried across the border.

The European Commission's plant health standing committee

met yesterday to discuss possible EU-wide action and further measures to be taken by the Dutch.

Sweden, which suffered a prolonged attack of brown rot in the 1960s, is already insisting that all Dutch potato imports be notified.

The British ministry of agriculture has advised the trade to halt imports of seed potatoes from the Netherlands - which provides nearly 14 per cent of UK requirements - until the outbreak has been isolated.

Britain imported 46,000 tonnes of seed potatoes and 41,000 tonnes of potatoes for consignment from the Netherlands last year, worth £14m. There has been only one isolated outbreak of the disease in Britain, in 1992.

"It could have devastating consequences," said Mr Mike Storey, research manager of the British Potato Marketing Board.

The Dutch situation is far more extensive than anything we've faced before."

Concern focused on seed potatoes, but there was also a risk that diseased ware potatoes - for direct consumption or processing - could enter the country, he said.

## Ghana's Ashanti on track for a golden future

The company is building a 10km underground rail system at its Obuasi mine, writes Kenneth Gooding

Work is starting this month on a US\$83m underground rail system that will run the whole length of Ashanti Goldfield's Obuasi gold mine in Ghana.

The 10km-long system, which is about 900 metres below the surface, will provide high speed haulage using electric locomotives. It is needed urgently because, even after 100 years of continuous operation, the Obuasi mine is still giving pleasant surprises.

Geologists recently discovered a huge gold deposit in an area of the mine that previously did not seem to have much potential. So getting the gold to the surface would be difficult without a radical overhaul of the underground infrastructure.

The high speed trains, which should be ready to go to work in 1997, will be able to haul more than 10,000 tonnes of rock a day, taking it to the most sensible exit shaft. Its final destination will depend on which of Obuasi's five processing plants it should go to - each of these surface plants uses a different method of treating ore to release its gold.

Ashanti will also spend \$15m on a new shaft near the newly-discovered deposit, at the southern end of the complex, to be drilled upwards from existing tunnelling. This will be used to haul about 1m tonnes of material a year but



Mr Colin Smith: "The future is underground, so any capital expenditure must protect underground growth".

will not be suitable for transporting people. An upgrade of another shaft, called the Kwesi Mensah shaft and an adjacent ventilation shaft - essential for the underground expansion scheme - were completed last year and yet another shaft, the Eton Turner, is being overhauled at a cost of \$17m and should be fully operational again in the middle of 1997.

The final element in the present \$90m programme will be a plant on the surface that will process waste from the mine, mix it with cement and send it back down again as a slurry that will be used to fill areas that have recently been mined. The plant and all the associated piping will cost \$25m.

Ashanti has spent \$600m in the past eight years to lift its annual output from 240,000 troy ounces of gold to 1m.

Mr Colin Smith, chief operating officer, says: "We have been battling for the past 18 months with an underground infrastructure that is not adequate. So we are spending the \$90m to catch up with the lack of spending in the past".

Mr Smith points out that in existing mining areas at Obuasi grades (the amount of gold per tonne of ore) are falling so

that the company will need to hoist from underground 3.5m tonnes of material a year by the end of the decade compared with 1.5m tonnes this year. He stresses that at Obuasi, "the future is underground, so any capital expenditure must protect underground growth".

With this in mind there has been some intensive underground exploration. In the past four months about 3,000 metres of drilling resulted in some very high grade mineralisation, some showing as much as half an ounce of gold per tonne over widths of more than 20 metres.

But Ashanti's concession area at Obuasi covers 474 sq km and the company is making a determined effort to find out exactly what riches remain to be discovered. A group of international geologists, working with Ashanti's own geologists, have started a three year study to determine the full potential of the concession. A helicopter was used to carry out an electro-magnetic survey

of the whole concession area in March. Mr Smith, a man not given to hyperbole, describes the results as "excellent" as they provided 15 "targets" outside areas at present being mined. Another helicopter survey will be carried out to provide more detailed data.

That data, together with that accumulated from more than 100 years of underground mining at Obuasi, mean that "within two years we will know what we have - or we have a good idea of what we have - in order to plan for the future", says Mr Tom Cox, general manager, strategic planning.

"We need to know what we've got so we can do some long term, strategic planning. We don't know what the ore reserve is, so we are accelerating exploration work. We need to know what would be a sensible production rate for the future."

For this reason, annual exploration spending in the Obuasi concession area has been stepped up from \$1.5m to \$10m a year, half of which is being spent on underground exploration.

Mr Smith says Ashanti's total capital expenditure will peak this financial year at between \$150m and \$160m but this should be covered from cash flow as the cash cost of producing gold at Obuasi will be below \$200 an ounce. He insists that the company does

not expect to have to issue fresh equity for Obuasi. However, it is treating its exploration and acquisition efforts elsewhere, mainly in West Africa, as a separate operation. This will not be subsidised by cash flow from Obuasi and, depending on Ashanti's success with new projects, shareholders may be called on for more finance for these operations.

Ashanti had hoped to produce 1m ounces for the first time in the year that ended on September 30, but freak weather dashed that hope. First there was a severe drought which slowed down production and then torrential rain flooded one of the shafts. These and other problems that miners more typically face, such as lower than expected grades in some parts of the mine, held production back to \$32,000 ounces.

Mr Smith says Ashanti will achieve its annual 1m ounces but "we are not blindly being led by that target. In the medium term Ashanti will maintain 1m ounces a year but this will include gold from other sources apart from Obuasi".

He hastens to add: "With what we already know about Obuasi, there is no reason that this mine should not be producing gold for at least another 100 years".

## Strike closes bauxite refinery

By Canute James in Kingston

The Jamalco bauxite refinery in southern Jamaica has been closed by strike by technical supervisors and administrative staff over a wage contract.

The workers ignored an order from Jamaica's industrial court to end the strike, and the company, owned by the Aluminum Company of America and the Jamaican government, said it would shut the 800,000-tonnes-a-year plant.

## Plan for Scottish super-salmon trial worries conservationists

By Alison Maitland

UK conservation groups and salmon farmers yesterday expressed concern at plans to conduct trials on a genetically engineered salmon that can grow at up to six times the rate of normal salmon.

Otter Ferry Salmon, a company that produces eggs and juvenile fish in land-based tanks in western Scotland, is considering trials to see if the fast-growing salmon can be

produced for eventual commercial use.

Mr David Patterson, technical director, said the company would decide by Christmas whether to try to produce up to 300 "transgenic" salmon, using technology developed in Canada. Salmon eggs are injected with a gene from another fish, the ocean pout, which controls production of the growth hormone. Researchers from the Ocean Sciences Centre at the Memorial University of New-

foundland, Canada, have produced transgenic fish two to six times normal size at one year old - the largest was 13 times the size of an average non-transgenic control.

Such rapid growth could be commercially attractive and a company in Chile has expressed interest in the possibility that salmon could one day be ready for eating in a year rather than three or four.

But Dr Malcolm Windsor, secretary of the North Atlantic Salmon Conservation Organisation, an inter-governmental body concerned with wild salmon, said: "When you introduce fish with genes from another animal, it's playing with fire. If there are to be tests, they must be 100 per cent secure. I'm not sure they can guarantee this".

He said transgenic salmon would have to be sterilised so they could not breed with normal salmon. But in that case, there was a danger the large

transgenic fish might feed on juvenile salmon.

Introduction of oversized salmon into the southern hemisphere, which does not have native salmon species to breed with, could still damage other flora and fauna, he added.

The Scottish Salmon Growers' Association, which represents salmon farmers, said: "Although there are transgenic tomatoes and plants, there's a concern when it comes to animals. We wouldn't want to go

down a route which would alienate consumers".

Mr Patterson said he appreciated environmentalists' concerns. The company has built a special experimental unit, its security systems - involving several sets of filters to prevent escape - have been checked by the Health and Safety Executive and Department of the Environment.

"It would be a minimum of ten years before this would become commercial," he said.

"Our position is that we're looking at it on an experimental basis. We would reassess it in a year and see if industry is interested in the technology."

He pointed out there could be problems such as adverse effects on the texture and eating quality that might make the transgenic fish problematic commercially. But if production became commercial the fish could be contained in enclosed fish farms in city centres to prevent escape.

## COMMODITIES PRICES

## BASE METALS

## LONDON METAL EXCHANGE

(Prices from Antwerp/Berger Metal Trading)

## ■ ALUMINUM, 99.7% Price (per tonne)

Cash 3 mths 6 mths 12 mths

Close 1638.9 1674.5 1682.3

Previous 1647.8 1682.3

High/Low 1643/1641 1686/1685

AM Official 1641.15 1678.5 1682.0

Kerb close 1640.25 1678.5 1682.0

Open int. 231.374 231.374

Total daily turnover 65,104

■ ALUMINUM ALLOY (S per tonne)

Close 1370.80 1412.7 1412.7

Previous 1375.35 1415.15 1415.15

High/Low 1415/1412 1415/1412

AM Official 1370.5 1405.15 1405.15

Kerb close 1410/20 1410/20

Open int. 3,390

Total daily turnover 518

■ LEAD (S per tonne)

Close 684.5 683.4 683.4

Previous 686.8 685.6 685.6

High/Low 684 687.600

AM Official 684.5 683.2 683.2

Kerb close 679.50 679.50

Open int. 32.545

Total daily turnover 7,777

■ NICKEL (S per tonne)

Close 881.25 880.25 880.25

Previous 882.45 881.70 881.70

High/Low 880.65/880.65 880.65/880.65

AM Official 880.65 880.65 880.65

Kerb close 880.65 880.65 880.65

Open int. 44,268

Total daily turnover 12,215

■ ZINC, special high grade (S per tonne)

Close 881.25 880.25 880.25

Previous 882.45 881.70 881.70

High/Low 880.65/880.65 880.65/880.65

AM Official 880.65 880.65 880.65

Kerb close 880.65 880.65 880.65

Open int. 44,268

Total daily turnover 12,215

■ TIN (S per tonne)

Close 6370.80 6415.20 6415.20

Previous 6405.15 6445.50 6445.50

High/Low 6405/6405 6405/6405

AM Official 6370.75 6410.15 6410.15

Kerb close 6400/10 6400/10

Open int. 17,713

Total daily turnover 7,677

■ ZINC, special high grade (S per tonne)

Close 1002.1 1044.45 1044.45

Previous 1026.5 1061.0 1061.0

High/Low 1026.5 1061.0 1061.0

AM Official 1026.5 1051.2 1051.2

Kerb close 1040.15 1051.2 1051.2

Open int. 17,713

Total daily turnover 7,677

■ COPPER, grade A (S per tonne)

Close 3022.7 3021.13 3021.13

Previous 3020.21 3020.21 3020.21

High/Low 3020/3020 3020/3020

AM Official 3018.21 3020/3020 3020/3020

Kerb close 3018/3018 3018/3018

Open int. 10,186

Total daily turnover 10,186

■ COPPER, grade B (S per tonne)

## INTERNATIONAL CAPITAL MARKETS

By Lisa Brausen in New York and Richard Lapper in London

The US Treasury market heaved a sigh of relief and rallied in early morning trading after the Treasury Department announced a series of steps that should put off the possibility of a default at least for this week.

Near midday, the benchmark 30-year Treasury bond was 1/4 higher at 1071/2 to yield 6.236 per cent. At the short end of the maturity spectrum, the two-year note was up 1/16 to 1004, to yield 5.87 per cent.

Bonds were lower in early trading amid continuing fears that the government might not be able to raise the cash to make interest and principal payments that come due today and tomorrow.

Just after 3pm, President Bill Clinton vetoed a bill that would have lifted the debt ceiling and allowed the government to raise cash to meet this week's debt service obligations.

At 10pm, however, the Treasury Department announced a series of auctions it could hold to raise \$102bn to pay and meet its obligations without breaching the debt ceiling.

Included in the auction schedule was an offering of \$22.2bn of three and six-month bills slated for yesterday afternoon, and auctions of \$1.8bn in three-year notes and \$13.5bn in 10-year notes to be held next Monday and Tuesday respectively.

Particularly heartening to traders was that the note auctions would be held next week, so there would be time for the market to absorb some of the supply through advance sales.

European bond markets also took heart from the signs of a potential compromise in the long-running US debt saga, with all markets rising strongly in the afternoon, following the opening of the US market.

The strength of the dollar helped France and the higher

yielding European markets outperform Germany, with 10-year yield spreads of French, Spanish, and Italian bonds narrowing over bonds.

Fuelled by the rise in the US market, gilts gained ground across the board. Producer price figures were as expected but provided further evidence that inflationary pressures are moderating.

### GOVERNMENT BONDS

That proved to be of particular help to the short-end of the curve, with yields on the three-year and four-year benchmark bonds rising by 7 and 6 basis points respectively, compared with a rise of 3 basis points for the 10-year benchmark.

According to Mr Andrew Roberts, gilts analyst at UBS, the market is now pricing in an interest rate cut by March next year.

On Liffe long gilts closed up nearly a quarter point, while the December short sterling contract gained 0.08, implying end of year rates of 6.62 per cent.

The 10-year yield spread between the two benchmark bonds widened by 1 basis point to 28 yesterday. However, over the past week the spread has contracted from 43 basis points.

Mr Fox expects it to fall back to 20 basis points but says there is a "definite split of opinion in the market. We are seeing a two-way trade flow."

The French market saw a resumption of the rally which began following last Tuesday's government reshuffle but which tailed off amid dollar weakness on Thursday and Friday.

Trading volumes were thin, however, with investors awaiting tomorrow's announcement of three-month Fiber Futures quoted at 94.03 during late trading on Globex, a rise of 0.08 on the day.

Mirroring the pattern elsewhere, the short end of the curve outperformed, with three-month Fiber Futures quoted at 94.03 during late trading on Globex, a rise of 0.08 on the day.

It is not mining but industrial growth we are after," said Mr Slack, adding that the fund would not, therefore, reflect the composition of the Johannesburg stock market.

Institutional investors have already committed about \$25m to the Dublin-listed fund, which will have a closed-end structure for the first two years and monthly redemptions at net asset value thereafter.

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## CURRENCIES AND MONEY

## MARKETS REPORT

## Dollar rallies as debt default fears recede

By Philip Gash

The dollar yesterday rallied on the foreign exchanges after the announcement of a revised schedule of Treasury auctions appeared to diminish the prospect of a default on the US government's debt.

The upward trend was established by the bond market, with the dollar following suit. The speed of the rally was accelerated by short covering from traders who were surprised by the initial move.

Markets appeared to take comfort from the fact that the announcement of a treasury auction was indicative of business as usual, rather than the sort of cataclysmic breakdown in government which has dominated recent discussion.

After trading around DM1.4075 and Y100.5, it made sharp gains in afternoon trading to finish in London at DM1.4195 and Y101.75, from DM1.4123 and Y100.7 on Friday.

Elsewhere, sterling lost

ground against both the D-Mark and the dollar, as weekend press speculation about large tax cuts in the upcoming budget weighed on sentiment. It finished at DM2.2125, from DM2.2245, and at \$1.5857, from \$1.5783. Most of the fall took place in Asian trading. The trade weighted index closed at 83.3, from 83.8.

After the late rally in the dollar, most European currencies ended slightly firmer against the D-Mark. The French franc finished at FF73.447, from FF73.452, against the D-Mark, while the lira closed at L1.125, from L1.130.

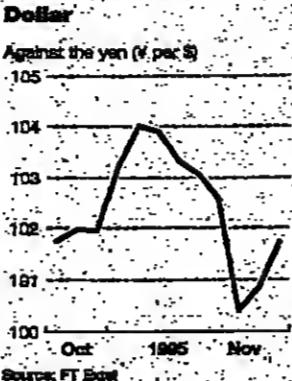
The catalyst for the dollar's rally was the combination of

the US treasury announcing a schedule of auctions, Mr Robert Rubin, the treasury secretary, saying that the US would not default, and President Clinton vetoing legislation that would have raised the US debt ceiling.

Mr Joe Prendergast, currency strategist at Merrill Lynch in London, said these developments had "taken some of the risk out of the market short-term." He said that while the vetoing of the debt limit extension bill was not in itself dollar positive, it had benefited the currency because passage of the bill would have meant almost certain default in mid-December. It now appears, he said, that the US government could fund itself through until early January.

The fact that the Treasury announced the series of auctions was taken as a signal of confidence that funding was available with or without a debt limit extension.

Mr David Cocker, economist



Source: FT Data

105  
104  
103  
102  
101  
100  
Oct Nov  
Source: FT Data

100 Oct Nov  
Source: FT Data

that while there will only be a "derailment" this week, "there will be a trainwreck over the budget in December. Mr Clinton and the GOP will collide with real force after he vetoes their budget package."

He reports that tempers are getting frayed in Washington, and says the Federal Reserve is concerned "if impaired Treasury wash out the bedrock under the markets. There are worries at the Fed about a repeat of black Monday 1987..."

The Bank of England provided £661m assistance to clear a £850m money market shortage. Three month LIBOR traded at 6% per cent.

Short sterling futures performed positively after signs that inflationary pressures were abating at the producer level. The March 1996 contract gained seven basis points on the day to finish at 93.61.

In Europe, the main focus was with Mr Hans Tietmeyer, the Bundesbank president, who endorsed the proposal. The March 1996 contract gained seven basis points on the day to finish at 93.61.

The dollar's rally yesterday was clearly a case of winning the battle, rather than the war.

Mr Dave Munro, chief US economist at High Frequency Economics in New York, predicts

## WORLD INTEREST RATES

	Nov 13	Over night	One month	Three months	Six mths	One year	Lent. rate	Dis. rate	Repo rate
Belgium	3.0	4	4.1%	4.2	4.4	4.6	4.00	3.50	-
week ago	3.2	4	4.1%	4.2	4.4	4.6	4.00	3.50	-
France	6.5	6.5	6.5	6.5	6.5	6.5	5.00	7.00	-
week ago	6.5	6.5	6.5	6.5	6.5	6.5	5.00	7.00	-
Germany	3.5	4	4	4	4	4	3.50	4.00	-
week ago	3.5	4	4	4	4	4	3.50	4.00	-
Ireland	5.5	5.5	5.5	5.5	5.5	5.5	5.50	6.25	-
week ago	5.5	5.5	5.5	5.5	5.5	5.5	5.50	6.25	-
Italy	10.5	10.5	10.5	10.5	10.5	10.5	8.00	10.50	-
week ago	10.5	10.5	10.5	10.5	10.5	10.5	8.00	10.50	-
Netherlands	3.5	3.5	3.5	3.5	3.5	3.5	3.50	3.50	-
week ago	3.5	3.5	3.5	3.5	3.5	3.5	3.50	3.50	-
Switzerland	2	2	2	2	2	2	2.00	2.00	-
week ago	2	2	2	2	2	2	2.00	2.00	-
US	2.5	2.5	2.5	2.5	2.5	2.5	2.50	2.50	-
week ago	2.5	2.5	2.5	2.5	2.5	2.5	2.50	2.50	-
Japan	1.5	1.5	1.5	1.5	1.5	1.5	1.50	1.50	-
week ago	1.5	1.5	1.5	1.5	1.5	1.5	1.50	1.50	-

5 LIBOR Interbank lending rates are offered rates for \$1m quoted to the market by reference banks at 1100 each working day. The banks are Standard Trust, Bank of Tokyo, Barclays, National City, and Citicorp.

Mid rates are shown for the domestic Money Rates, US CDs, ECU and SDR United Deposits (Dis).

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**MANAGED FUNDS NOTES**

are to be used unless otherwise indicated and those listed 5 are to prefer to U.S. dollars.

% allow for all holding expenses.

% of certain other insurance funds place subject to gain or loss on sales.

allow for capital recognition. The regulatory authorities have funds available.

- Bank - **Bankrate Monetary Authority**
- Financial Services Commission
- Central Bank of Ireland
- **Bank of Canada Monetary Commission**
- **Regulated Savings Department**
- **Bank - Institut Monétaire Luxembourgeois**
- change - Change made on sale of units.
- price - Bid or redemption price.
- The time element alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:
- 1/27 to 1/1000 times
- 1/27 to 1/2400 times
- 1/4501 to 1/7200 times
- 1/7201 to midnight
- 1/ change on sale of units.
- manager's periodic change deducted from capital.
- periodic pricing - Periodic pricing
- income free of tax income.
- periodic price includes income plan.
- single premium guarantee.

superseded as a UGITS (Underwriting for Collective Investment in Transferable Securities).

Reduced price includes all expenses except agent's commission.

includes daily price.

old name - Jersey Inc.

- **subsidization**, **ad -** ad - **admitted**.

by authority to charitable bodies.

Yield includes other anticipated rates of NAV

## MARKET REPORT

## Relief over US debt worry prompts Footsie rally

By Steve Thompson,  
UK Stock Market Editor

A rescheduling of US bond auctions, designed to raise sufficient funds to meet interest payments due this week, took the heat off world financial markets yesterday and was greeted with a strong performance by UK equities.

Share prices in London closed at the day's best levels after the US news became known, but not before the stock market had endured a difficult morning and early afternoon session, which saw nerves among traders being stretched to the limit by the US uncertainty.

Traders now face a week full to

the brim with economic news, plus a long list of trading statements from no less than five FT-SE 100 stocks and a host of trading reports from Mid 250 constituents.

At the close the FT-SE 100 index was 13.4 higher at 3,536.8, recouping much of the ground lost last Friday, when increasing fears that the US might default on \$25bn of interest payments spooked international markets.

The FT-SE Mid 250 index, on the other hand, was always in negative territory, dropping some 10 points early in the session before stabilising and closing 5.0 at 3,897.3.

Dealers were quick to point out that the weakness in the second-tier

index would have been much more severe without a splendid performance by the recently beleaguered housebuilding sector, which provided six of the top eight performers in the FT-SE Mid 250.

The sector surged ahead after positive recommendations from a number of leading stocks, notably NatWest and Charterhouse Tilney, plus hopes that the November 28 Budget might bring good news for the builders, as would an increasingly bright outlook for the economy.

Renewed weakness in Calor, which announced a profit warning last week, and Hambrus, the merchant bank due to release interim results tomorrow, was responsible for the

slide in the Mid 250 index. More pressure came from falls across the waters sector after indications of a tighter regulatory regime.

Bank shares were prominent in the FT-SE 100 performance table, with Bank of Scotland pushed sharply higher as the market picked up hints that the bank might be pursuing the acquisition of the Woolwich Building Society. Abbey National, Royal Bank of Scotland and National Westminster Bank also made rapid progress, the last mentioned amid suggestions that the US arm of its Bancorp subsidiary is at hand.

The FT-SE 100 opened around five points off, but gradually stabilised in the first two hours of trading, before coming off again ahead of the opening of Wall Street.

International bond markets gave some support to equities during the morning period, when yields were never worse than a few ticks easier. And bonds helped to drive share prices better in the afternoon, when the US rescheduling package became known. The Dow Industrial Average was down 11 points shortly after it opened, but rallied later to show a seven-point gain.

Turndown in UK equities reached 280.9, shared by 5pm, but was inflated by big trades in Investors Capital Trust. Customer business on Friday was worth £1.37bn.

## Takeover talk lifts BoS

Banking stocks ran forward in late trading as what one dealer called "a cold collation of unverifiable stories" whipped through the market.

Most prominent was a rumour that Bank of Scotland, whose shares jumped 4.8 per cent, is poised to buy a building society.

There was talk that the Woolwich Building Society would make an announcement this morning, in spite of Bank of Scotland closing 12 stronger at 361p - the biggest rise among Footsie stocks - most analysts were sceptical about the story.

They said the prospect of Bank of Scotland being able to stump up the necessary £2.4bn was undermined by its recent £25m purchase of 51 per cent of Bank of Western Australia.

Elsewhere in the sector, there was buying of National Westminster on optimism that it would dispose of Bancorp, its US arm, some time this week. But there was also a rumour that HSBC Holdings, the favoured buyer, had walked away from the deal.

And, so the stories suggested, HSBC was rumoured to be bidding for Royal Bank of Scotland. Finally, a sharp rise in Abbey National led to speculation of a link-up with a rival bank. But it seemed that a buyer of 600,000 shares had left one marketmaker short of stock and

started a squeeze in the shares. None of the stories had analysts racing to their best clients. However, NatWest ended 10 higher at 568p, HSBC 6 better at 321p, RBS 10 up at 325p and Abbey 15 ahead at 568p.

**Builders sparkle**

Housebuilders sparked as the market reacted to favourable press comment, combined with a clutch of brokers' recommendations and sent the sector sharply ahead.

The sector led the list of leading performing stocks in the FT-SE Mid 250 index. The day's sharpest rise was recorded in George Wimpey, which topped the active list after the shares rose 7 to 110p.

Other strong performers included Tarmac, 5 better at 86p, Wilson (Connolly) Holdings, up 9 at 155p, and Taylor Woodrow, which moved forward 6 to 108p. Barratt Developments gained 10 to 218p and Bellway ended the session 17 ahead at 261p. The list of brokers favouring the sector included Charterhouse Tilney, NatWest Securities and Strauss Turnbull.

In a note to investors, Charterhouse Tilney said the sector was undervalued. While admitting "there have been some nasty shocks in recent trading statements", the broker nevertheless believes: "There is growing evidence that companies which have been pro-active in their selling methods are faring reasonably well and the overall market seems a little more resilient. Even with no assistance from the Budget, the sector looks attractive ahead of greater feel-good next year."

Analysts at Strauss said the Budget at the end of next month will act as a spur for the sector, "by at the very least eliminating the current wait-and-see approach among potential purchasers".

Worries over tomorrow's interim results saw shares in Hambrus, the merchant bank, slide sharply. First-half profits are widely expected to decline from year-ago levels, with some analysts also predicting heavy restructuring charges and a possible threat to the interim dividend.

However, speculation about a bid for Hambrus was expected to remain a factor. There was comment in the weekend press about Hambrus possibly to making itself more attractive to a potential purchaser by selling parts of its business. The shares fell 10 to 155p.

Overall market volume was boosted by very heavy trade in Investors Capital Trust after

British Assets Trust placed 62.5m growth shares for £67.5m, reducing its stake to just under 40 per cent. The shares ended 1% up at 105p on final turnover of 156m, while there were 55m warrants dealt.

Trade in the two stocks accounted for more than 30 per cent of the market total.

Royal Insurance recovered 10 to 372p after dipping 27 at the end of last week following profits for the first nine months of the year at the low end of market forecasts. SBC Warburg was said to be recommending the stock.

London & Manchester, seen as the next takeover target in the life sector, gained another 12 to 424p. However, one dealer pointed out that at a 40 per cent premium to net asset value the share price was looking very demanding if nothing happened.

Northumbrian Water improved 7 to 1115p ahead of

**FINANCIAL TIMES EQUITY INDICES**

Nov 13 Nov 10 Nov 9 Nov 8 Nov 7 Nov 4 High Low
Ordinary Share 2588.3 2576.3 2581.0 2588.8 2578.8 2787.7 2686.5 2283.3
Ord. div. yield 4.13 4.15 4.10 4.10 4.12 4.35 4.73 4.02
P/E ratio net 13.58 13.62 13.61 13.54 13.34 21.28 13.35
P/E ratio 15.43 15.44 15.42 15.38 17.98 22.21 15.35
PE ratio 1.99 1.98 1.97 1.96 1.95 1.94 1.93 1.91
1995 1994 Ordinary Share Index (100) 271.8 269.9 269.8 269.7 269.6 269.5 269.4
FT-SE Ordinary Share Index (100) 268.3 267.8 267.7 267.6 267.5 267.4 267.3

FT-SE 100 INDEX FUTURE (Liffe) £25 per full index point

Open 2574.0 2576.1 2578.7 2581.3 2582.5 2578.2 2562.0 2565.7 2568.5 2574.0

Nov 9 Nov 8 Nov 7 Nov 6 Nov 5 Nov 4 High Low

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Open 2574.0 2576.1 2578.7 2581.3 2582.5 2578.2 2562.0 2565.7 2568.5 2574.0

Nov 9 Nov 8 Nov 7 Nov 6 Nov 5 Nov 4 High Low

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SE 100 INDEX FUTURE (Liffe) £25 per full index point

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## AMERICA

# US equities recoup losses by midsession

## Wall Street

US share prices recovered from morning losses to hold near Friday's close as fears waned that the government might default on its debt, writes Lisa Brantzen in New York.

At 1pm the Dow Jones Industrial Average was 4.33 higher at 4,747.70 and the Standard & Poor's 500 rose 0.01 at 562.73, while the American Stock Exchange composite fell 0.76 at 530.24. NYSE volume was light at 15.5m shares.

Bonds were also lower in early trading but began rising after the Treasury department announced a series of measures that should allow it to raise money to meet its obligations even if the debt ceiling were not lifted.

Rising bond prices helped the Dow to recover from a loss of nearly 23 points seen in the first half hour of trading.

The technology-rich Nasdaq composite also reversed early losses, although it did not slip by as much as other indices. By 1pm it was 1.18 higher at 1,065.06.

Apple Computer added \$14 or 2.8 per cent at \$407 on news that it led US computer makers in personal computer shipments for the third quarter, winning a 12.1 per cent market share. Compaq Computer, unchanged at \$34.4, was number two.

America Online, which is a provider of online services, added \$1.1 at \$33 and Intuit, a maker of personal finance software, gained \$2.2 at \$85.82 after the companies announced that they had signed an agreement to offer online electronic bank

ing services.

Toys 'R' Us shed \$3 or 3 per cent at \$23.4 after announcing third quarter results that did not meet analysts' projections. The toy retailer earned 8 cents a share in the third quarter, 3 cents a share below expectations.

Vigoro jumped \$10 or 34 per cent to \$55.6 after announcing that it had signed an agreement to merge with IMC Global in a stock swap. IMC shares slipped \$7 at \$73.4 on the news.

## Canada

Toronto was firm in midday trade but volume was only moderate with banks closed for the Remembrance Day holiday. The TSE 300 Composite Index was 19.99 higher by noon at 4,597.97 in volume of 28.5m shares.

High technology shares

remained at the centre of attention, with Metroworks up C\$1 to C\$13.1 after a morning's high of C\$15.4. Gandalf Technologies picked up C\$1 to C\$12.4.

Falling issues included Placer Dome, down C\$6 to C\$22.6 while Abacor Resource Group, the oil and gas company, fell 40 cents to C\$4.45.

Sherritt picked up C\$4 to C\$19.2; last week, Fidelity Management Trust said that a number of investment groups had raised their stakes in Sherritt.

CanWest Global Communications eased C\$4 to C\$22.2 on news that it had launched a C\$65m takeover bid for the Vancouver-based Western International Communications. WIC jumped C\$2 to C\$25.4.

# São Paulo off 4.5%

São Paulo was hit hard in early trade, although dealers were perplexed about the root cause. By early afternoon the Bovespa index was off 4.5 per cent or 1,736.88 points at 37,843.

Some investors were worried about the US budget problem that could deter even more investors from putting cash into the region.

The market yesterday was open for new trading hours, from 1pm to 3pm, without a midday close.

## MARKETS IN PERSPECTIVE

	% change in local currency 1				% change in 1				% change in US 1			
	1 Week	4 Weeks	1 Year	Start of 1995	Start of 1995	1995	Start of 1995	Start of 1995	1995	Start of 1995	1995	Start of 1995
Austria	-1.19	-2.77	-13.20	+14.88	+7.21	-6.56						
Belgium	+0.19	+0.74	+6.78	+5.73	+15.19	+15.99						
Denmark	-0.55	-1.97	+1.27	+0.27	+10.62	+11.29						
Finland	-1.01	-12.63	+5.24	+8.20	+20.02	+20.85						
France	+0.17	+0.50	+4.05	+0.85	+7.77	+8.52						
Germany	-0.53	-1.63	+1.77	+0.87	+9.93	+10.70						
Ireland	+1.21	-0.84	+17.80	+15.70	+20.07	+20.90						
Italy	-1.02	-5.03	+9.23	+8.65	+7.88	+7.36						
Netherlands	0.12	-1.71	+4.55	+7.07	+10.00	+10.40						
Norway	-0.02	-4.28	+9.65	+2.46	+15.03	+5.75						
Spain	-0.65	-1.22	+0.43	+4.42	+12.00	+12.77						
Sweden	-2.16	-6.74	+18.04	+17.94	+31.05	+31.96						
Switzerland	-0.20	-0.70	+20.08	+18.40	+33.28	+36.21						
UK	-0.61	-1.33	+12.65	+14.10	+14.10	+14.88						
EUROPE	-0.03	-1.54	+7.17	+7.88	+14.07	+14.82						
Australia	+1.84	+1.79	+9.63	+11.48	+5.37	+6.10						
Hong Kong	-0.44	-6.00	+5.16	+11.71	+10.02	+10.77						
Japan	-0.83	-0.15	+5.59	+8.03	+8.51	+8.88						
Malaysia	-2.23	-7.99	+15.27	+10.22	+10.11	+8.49						
New Zealand	+0.85	+4.37	+1.57	+13.21	+14.66	+15.47						
Singapore	-1.81	-3.38	-11.18	-5.31	-2.91	-2.24						
Canada	+0.90	+1.70	+9.49	+7.94	+11.25	+12.02						
USA	+0.31	+1.27	+27.73	+29.17	+28.29	+29.17						
Mexico	-0.92	-1.46	+5.42	+5.03	+39.79	+39.37						
South Africa	+3.25	+3.18	+15.57	+0.45	+10.84	+11.80						
WORLD INDEX	-0.17	-0.16	+8.18	+8.54	+10.68	+11.42						

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## FT/S&amp;P ACTUARIES WORLD INDICES

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## NATIONAL AND REGIONAL MARKETS

Region	Country	FRIDAY NOVEMBER 10 1995				TUESDAY NOVEMBER 14 1995				DOLLAR INDEX			
		US	Days	Point	Yield	US	Days	Point	Yield	Local	Currency	52 week	52 week
Australia (25)		-0.1	171.39	115.02	133.71	184.06	-0.3	3.96	182.32	171.24	117.09	194.23	191.01
Austria (27)		-0.5	160.70	108.69	125.37	125.29	-0.8	1.34	171.76	161.33	110.32	126.46	125.37
Belgium (23)		-0.55	163.95	124.26	143.44	139.81	-0.3	5.74	185.16	162.29	125.53	143.89	140.20
Brazil (29)		-0.34	122.18	62.64	95.32	92.72	-0.4	1.63	134.40	122.66	63.31	98.85	97.78
Canada (100)		-0.1	136.41	92.25	108.42	141.86	-0.2	2.60	144.79	135.59	92.58	142.12	142.12
Denmark (38)		-0.2	265.87	178.54	205.94	210.57	-0.4	1.55	265.88	210.07	295.99	236.81	245.54
Finland (25)		-0.2	212.48	130.24	180.24	203.14	-0.7	2.23	221.29	181.23	126.53	223.81	212.00
France (59)		-0.77	167.94	112.98	130.32	135.74	-0.7	3.23	178.85	167.51	114.54	180.45	177.12
Hong Kong (55)		-0.8	339	229.95	352.25	365.65	-0.8	0.08	364.02	226.05	237.78	368.36	361.19
Ireland (16)		-0.5	244.66	158.71	183.07	217.71	-0.5	3.46	250.55	233.32	160.91	241.70	245.53
Italy (58)		-0.5	65.85	44.40	51.22	83.15	-0.8	1.83	70.40	61.13	45.22	51.82	51.71
Japan (48)		-0.7	134.99	91.00	101.03	101.03	-0.8	0.84	141.97	131.90	91.18	104.82	91.18
Malaysia (16)		-0.87	44.74	27.19	30.49	30.49	-0.2	1.95	44.42	26.04	18.64	39.91	38.80
Mexico (26)		-0.2	240.05	182.35	187.28	184.13	-0.3	3.58	223.83	203.21	163.80	203.95	213.67
New Zealand (14)		-0.1	78.98	51.78									

## GREECE

# Policy gap weakens Balkan thrust

The controversy surrounding prime minister Andreas Papandreou is preventing Greece from exploiting close new ties with its Balkan neighbours. Kerin Hope reports

Greek politics is always imbued with a sense of theatre. But prime minister Andreas Papandreou's efforts to undermine younger rivals while his wife Dimitra fends off criticism of past improprieties have turned it into an embarrassing comedy.

Though the 76-year-old Mr Papandreou still has a firm intellectual grasp, his weak health has brought policy-making to a standstill. His refusal either to set a date for his retirement or to suggest a successor threatens to split the governing Panhellenic Socialist Movement. Opinion polls show a steady decline in Pasok's popularity because of uncertainty over its future leadership.

Greece is more than ready for a new generation of politicians to take over the helm. Innovative thinking is needed to build sound political and economic ties with Balkan neighbours and defuse hostility toward Turkey. Greece's rival for control of the Aegean. The war in Bosnia and Greece's dispute with the former Yugoslav republic of Macedonia have shown how easily Greece can become isolated, physically and politically, from its EU partners. New strategies must be found both to attract more foreign investment in Greece itself, and to exploit expanding opportunities for trade and investment in the Balkans and around the Black Sea. The twin pillars of the Greek economy, shipping and tourism, need strengthening.

The public administration urgently requires modernisation. Delays in drawing down EU financial aid intended to help poorer member states participate in economic and monetary union have exposed the weaknesses of the Greek bureaucracy. Frustrated offi-

cials doubt whether Greece can absorb the entire Ecu15.5bn available over the next five years for improving communications, industry and environmental protection.

None of these issues can be addressed until the Socialists resolve the succession question. Mr Papandreou is under attack both from the party's populists, increasingly dissatisfied by restrictive wage and pension policies, and from pro-Europeans, led by a group of former cabinet members who want preferences for choosing a new leader to be clarified.

As Mr Theodore Pangalos, the former European affairs minister, and one of the "gang of four" militants who are mounting a co-ordinated campaign to unseat the prime minister, puts it: "We need a prime minister who can hold a cabinet meeting every week and stand up in parliament twice a week to answer questions."

Mr Papandreou's infirmity has made him dependent on his wife and a small group of cabinet members and close friends. As the head of the prime minister's private office, Mrs Dimitra Papandreou, 40, controls access to her husband. She is accused by political enemies of influencing his decisions and preparing the ground for her own political career.

The depth of the divisions within Pasok have been revealed by a smear campaign against Mrs Papandreou. A left-wing newspaper, Avrani, has published a series of photographs purporting to show the prime minister's wife nude on a beach with friends. While Greek society is tolerant of sexual indiscretions, this means of attacking the prime minister has shocked public opinion.

The latest episode of what many Greeks ironically call "our national soap opera" saw

Mrs Papandreou take the offensive. In an interview on state television, she dismissed the photographs as faked. More damaging to the government, she refused to rule out running for parliament at the next general election in October 1997.

While Mrs Papandreou dominates the newspaper headlines, cabinet members worry that Mr Papandreou may not survive until the next election. The opposition conservatives are in disarray, but failure to appoint a new Pasok leader well ahead of the poll could ruin the party's chances of retaining power.

The former industry minister, Mr Costas Simitis, another "gang of four" member and a leading contender to succeed Mr Papandreou, has demanded that he fix a timetable for his departure. The other two rebels are Ms Vasso Papandreou, in the past an EU commissioner, and Mr Paraskevas Averinos, a former health minister. Together the four would provide the core of a moderate leadership committed to economic reform and a pro-European foreign policy.

Mr Papandreou's unwillingness to launch the search for his successor reflects his fear of being forced out of office. He has surrounded himself with allies who have stayed loyal since the founding of Pasok 21 years ago. The only potential prime minister among them is Mr Akis Tsochatzopoulos, 58, who runs a super-ministry in charge of public administration but has virtually no experience of foreign affairs.

The task of keeping an increasingly restive Pasok under control leaves Mr Papandreou and his circle little time for long-term planning.

The quarrelsome New Democracy party has been unable to exploit the Socialists'



Soldiers in traditional uniform stand guard outside the Greek parliament building

Picture by Ross Bay

troubles. Mr Miltiades Evert, the conservative leader is constantly under attack from two prickly backbenchers, former prime minister Constantine Mitsotakis and his ambitious daughter, Mrs Dora Bakoyannis. Nor have the conservatives yet come up with forward-looking policies that would persuade younger Greeks and floating voters to change sides.

However, the outlines of a consensus on Greece's future relations with Macedonia have emerged, following settlement of the dispute over Macedonia's flag and constitution in September. Nationalist feeling in the northern Greek province

of Macedonia is retreating in favour of doing business with the new state.

For the first time since the collapse of communism five years ago, Greece can claim to have a working relationship with all its northern neighbours. This has improved the country's position with its EU partners and the US, which is encouraging Mr Papandreou to play a role in promoting regional stability. The possibility of a violent spillover from the war in Bosnia still exists, though it is lessening.

The new realism apparent in Greek foreign policy means that while the dispute over the former Yugoslav republic's

name is unlikely to be quickly resolved, it will not prevent the restoration of diplomatic links. Trade and tourism is recovering, following the lifting of the Greek blockade imposed in February 1994 and the adoption of a new design for the red and gold Macedonian flag to replace the Vergina sunburst symbol claimed by the Greeks.

Ties with Albania have improved to the point where Greek banks are preparing to open branches in Tirana to handle remittances of around Dr60bn (\$160m) yearly from almost 300,000 immigrant workers in Greece. An agreement to provide temporary work permits for 150,000 Albanians

## IN THIS SURVEY



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● Infrastructure: progress toward better transport is too slow.

● Shipping: the market is cooling down

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● The Athens stock exchange: reforms are needed



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● Accounting: an error in public accounts has highlighted the system's limitations

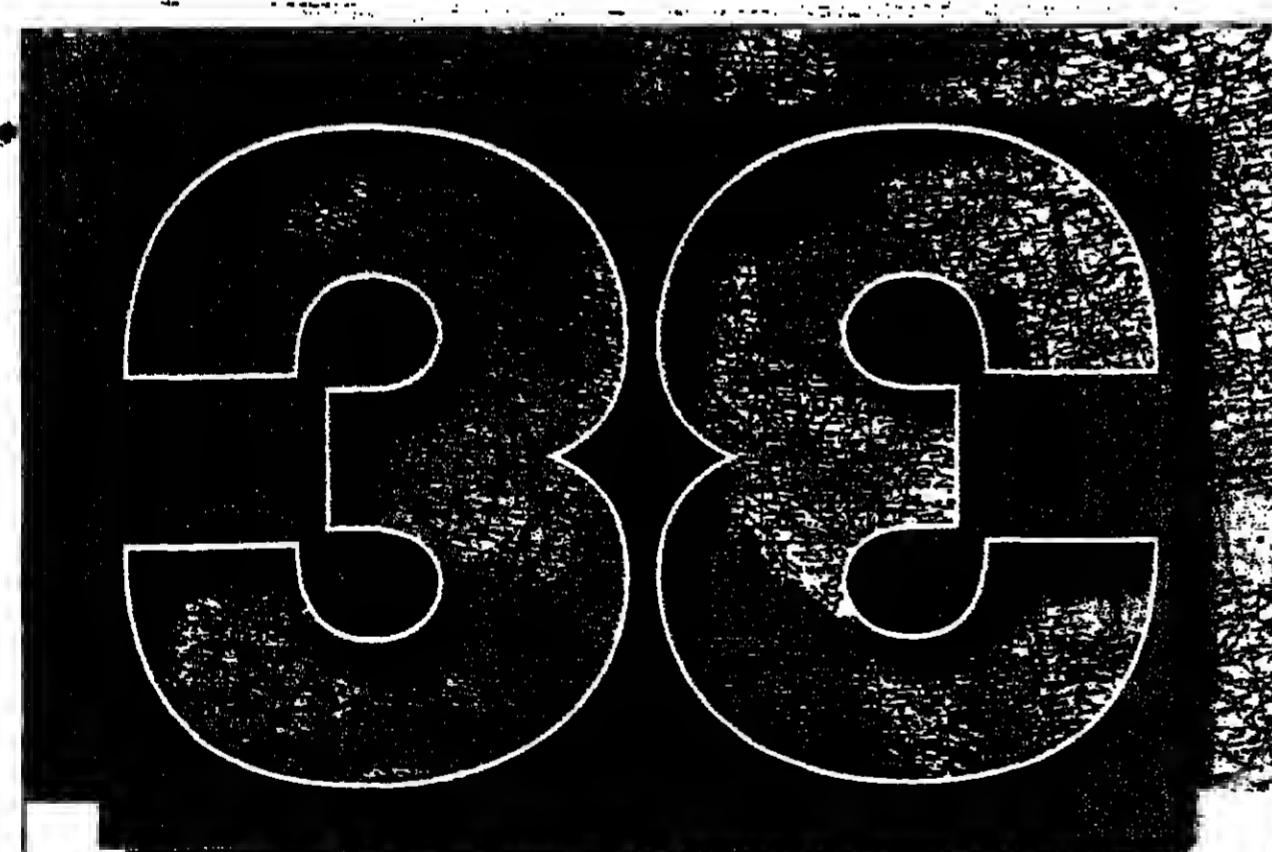
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● Eastern investment: Greek companies are at the forefront.

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Editorial production: Jonathan Guthrie



# Growth

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Greece is one of the five countries taking part in the International Olympic Committee's Centennial Coin Programme to commemorate the 100th anniversary of the first modern Olympic Games.



■ Banking: by Kerin Hope

## The lotus eating ends

An intensifying lending battle has pushed banking into a more competitive phase

Greece's banks are braced for leaner times. An interest rate war is squeezing margins, more corporate borrowers are in trouble and competition in consumer lending is growing.

The banks' battle for market share has knocked seven percentage points off the cost of working capital this year. Corporate borrowers are now offered loans at 18 per cent, the lowest rate since the 1990s.

Even so, many Greek companies have preferred to take advantage of the drachma's stability and borrow in foreign currency at rates of around 9 per cent.

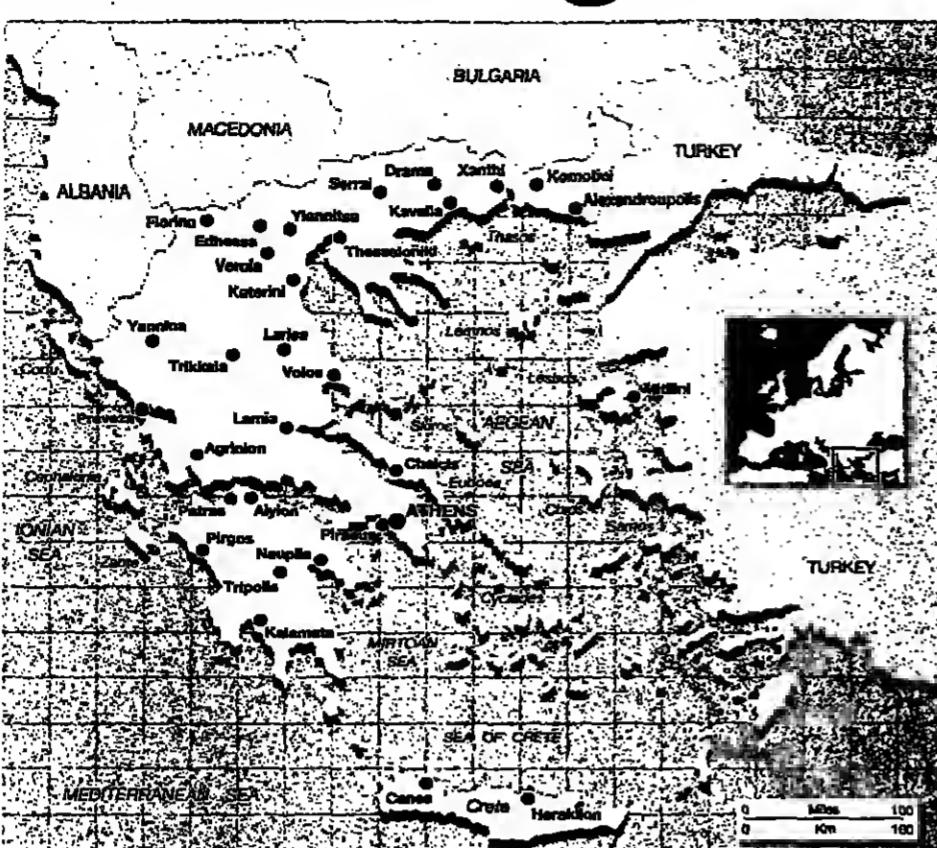
Costs for banks have risen with the central bank's attempt to contain the surge in foreign borrowing by raising the compulsory reserve requirement from 9 to 11 per cent of deposits. Foreign currency deposits and loans were also included in the reserve requirement for the first time.

Now the interest rate war has broadened to include mortgage rates, a growth area for Greek banks following a surge in property prices in Athens and Thessaloniki. Fixed-rate mortgage financing has become available for the first time, prompting a rush of applications by prospective home buyers.

For banks accustomed to earning healthy profits from corporate lending, the fall in interest rates has forced a change in outlook. Moreover, the corporate market is shrinking as top-tier Greek companies prefer to finance their operations out of earnings.

Mr George Patakos of ABN-Amro says: "The corporate bonanza is over. Spreads have collapsed and there is much less good-quality business around. In this climate, it's debatable whether you want to take on extra risk in order to expand your loan portfolio."

Banks are also predicting increased provisions for bad debts as companies under pressure, especially in declining



manufacturing sectors like textiles and footwear, are forced to shut down.

Consumer lending is setting the pace as the economy picks up after several years of recession. The ceiling on consumer credit was raised to Dr5m (£22,000) last year. Customers can borrow Dr1m for non-specific purchases, which serves as the unofficial equivalent of an overdraft facility, banned under Greek law.

Consumer credit expansion reached almost 35 per cent in the first half of 1995, fuelled by intense competition among smaller private banks to design innovative products. However, many products are intended for sophisticated customers in Athens and Thessaloniki, as the small private banks do not have an extended branch network.

Overall a sharp fall is expected in second-half earnings growth. First-half results were spectacular for some banks because of windfall profits

from high-yielding government securities purchased during last year's currency crisis. In order to defend the drachma when curbs on short-term capital movement were lifted, the government briefly raised interest rates on six-month and

agreements at the height of the crisis.

The big state-controlled banks enjoyed an extra earnings boost in the form of higher commission from the finance ministry for selling government paper. While this practice has been dropped, commission on the high volume of government securities traded every month by larger banks will make a useful contribution to their earnings.

The lifting of short-term capital restrictions has brought liberalisation to a point where the state-owned banks must modernise to stay competitive. While the three big state banking groups still control over 60 per cent of deposits and loans, their market share has been steadily eroded by foreign banks and private Greek banks, both of which achieve a much higher return on capital.

The state banks have started to fight back, improving their treasury operations and moving

### KEY FACTS

Area	131,957 sq km
Population	10.5 m
Head of state	Kostis Stephanopoulos
Average exchange rate	1994: St1=Dr24.23 1995: St1=Dr20.73
Currency	Greek drachma

### ECONOMY

	1994	1995
Total GDP (\$bn)	22	23
Real GDP growth (%)	1.5	1.7
GDP per capita (\$)	9,102	10,617
Components of GDP		
Private consumption	74.5	NA
Government consumption	13.8	NA
Fixed investment	16.9	NA
Exports	17.4	NA
Imports	26.9	NA
Change in stocks	1.9	NA
Annual average growth		
Consumer prices (%)	10.3	9.6
Agricultural output (%)	1.5	2.0
Industrial output (%)	1.2	1.5
Unemployment (Pct labour force)	10.0	10.3
Reserves minus gold (M1) (\$bn)	15.4	NA
Money growth (M1) (% per annum)	11.6	11.4
Stk market cap (market value) (\$bn)	9.38	10.63
Public sector deficit (% GDP)	12.0	9.5
Current account balance (\$m)	-131	1051
Merchandise Exports	5,215	5,678
Merchandise Imports	18,739	20,227
Trade balance (\$m)	-13,524	16,617
Exports	1,441	1,699
Main trading partners (1993)		
Germany	24.4	16.9
Italy	12.0	14.2
France	5.4	7.2
UK	5.3	5.1
EU	54.2	50.0

1) Estimates. 2) 1994 to date. 3) 1993 unless otherwise indicated. 4) 1994. 5) 1995 budget. 6) Share of world trade.

Source: Central Bank, Economic Intelligence Unit

### PROFILE

Alex Papadopoulos

## In pursuit of tax evaders

Mr Alex Papadopoulos, a soft-spoken lawyer and the author of a best-selling book on Balkan history, seems an unlikely choice as Greece's finance minister.

His only qualifications for imposing fiscal discipline in a country of chronic tax evasion, he says, are "common sense and a liking for being methodical".

Mr Papadopoulos was plucked from the Socialist backbenches two years ago to oversee the budget and modernise a tax system left largely unchanged since the 1970s.

The Greeks' unwillingness to pay income tax stems partly from a conviction that they get little in return.

Businessmen complain that instead of being used to fund public investment, tax receipts pay the salaries of an inefficient civil service or disappear into the black hole of the public debt.

Mr Papadopoulos is out to change such attitudes. Through a combination of tighter fiscal controls and punitive measures for offenders, the finance

ministry aims at bringing most of the underground economy, estimated at about 40 per cent of gross domestic product, into the tax net by the end of the century.

His efforts started to bear fruit last year, when the budget showed a small primary surplus, largely as a result of a 2.2 per cent rise in tax revenues. The surplus is expected to increase this year to 3.4 per cent of GDP.

But more must be done if the government borrowing requirement is to be reduced to less than 1 per cent of GDP by the end of the century.

Moreover, Greece's debt-to-GDP ratio, at 114 per cent, is among the highest in the EU.

Given the Socialists' reluctance to impose spending cuts, the burden of deficit reduction falls squarely on the revenue side.

Mr Papadopoulos says that broadening the tax base will bring a steady increase in receipts. By 1999, income tax receipts should account for 7 per cent of GDP compared with 5 per cent of GDP in 1993.

Last year, a threatened revenue shortfall from taxes forced officials at the finance ministry to take extraordinary measures. Mr Papadopoulos offered automatic settlement at a

discount in more than 7m tax disputes, some of them dating back as much as 10 years.

This year, a new tax system based on assessed rather than declared income took effect for self-employed workers, who make up over 30 per cent of the economically active population and are considered Greece's worst tax offenders.

The self-employed, from car



Alex Papadopoulos: setting up financial police force

mechanics and cafe owners to architects and doctors, now pay tax according to "objective indicators" of income worked out by the finance ministry. These include the size of their premises, or the numbers of staff they employ, and in the case of doctors, the number of years they have practised medicine.

Mr Papadopoulos accepts that presumptive taxation is inherently unfair, but defends it as unavoidable at present.

Presumptive taxation will remain in force until 1997, the deadline for installing a new computer system at Greece's larger tax offices. This will be capable of cross-checking invoices and receipts issued by companies and individuals.

In the meantime, Mr Papadopoulos' advisers are preparing to launch a 2,000-strong financial police force, with powers to arrest suspected tax offenders, search their premises and confiscate their books.

He says: "Cases against tax offenders tend to get bogged down in legal procedures and end nowhere. But the financial police will have real muscle."

Kerin Hope

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■ The economy: by Kerin Hope

## On course for convergence

Greece must meet EU convergence targets to win much-needed subsidies

The Greek economy is making a stronger than expected recovery, though growth is still lagging the European Union average. Economy ministry forecasts that gross domestic product would rise by 1.2 per cent this year have been revised upwards to 2 per cent.

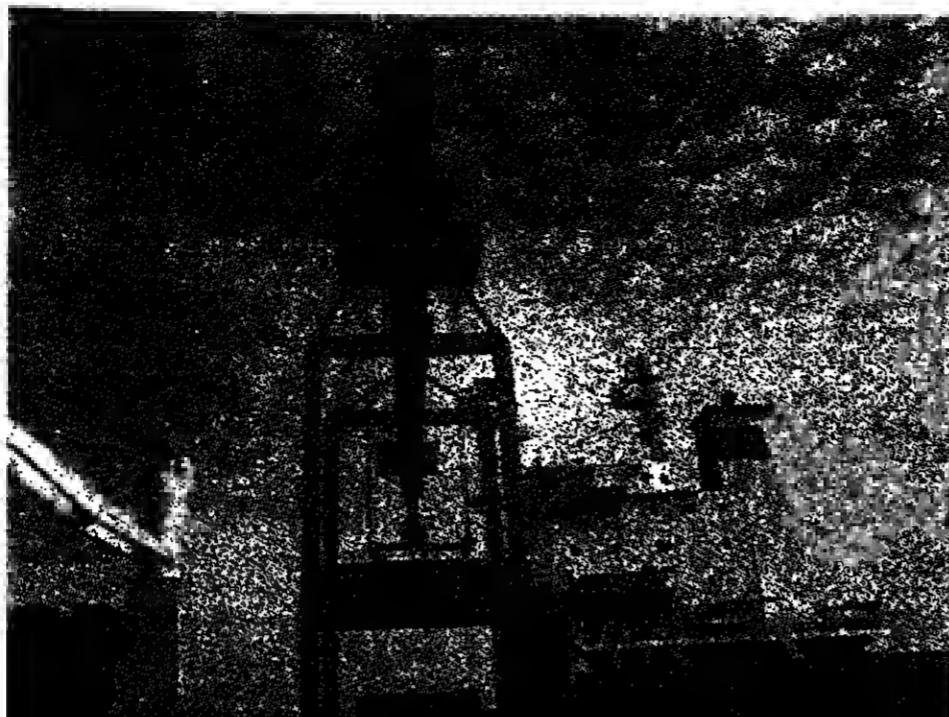
Mr Yannis Stournaras, a senior economy ministry adviser, predicts a better performance in 1996, with GDP growth rising above 2.5 per cent on the back of rising public sector and private investment. He says: "A stable economic climate over the past 18 months has restored confidence. We are ready for a steady period of growth."

The government's commitment to carrying out a revised convergence programme agreed with the EU helps to reassure Greek businessmen that unpredictable policy shifts on taxation, interest rates and exchange policy now belong to the past.

The programme is designed to meet the Maastricht targets for inflation and the deficit by the end of the century and substantially reduce the public debt, now at 114 per cent of gross domestic product, so that Greece can qualify to take part in European economic and monetary union.

The government is well aware that any deviation from the convergence targets would hamper disbursement of the large amounts of EU structural aid which are vital for growth. Its most positive achievement has been reducing inflation to single digits for the first time in more than 20 years. Yearly inflation is projected to drop to 7.9 per cent by December, still almost three times the EU average but a substantial improvement on last year's 11 per cent.

Thanks to the strong drachma, imported inflation is minimal. A tight wages policy has held down increases for public sector workers below this year's projected inflation rate and helped restrain rises



Container terminal at Thessaloniki: Greek ports are expected to benefit from the growth in trade between Greece and its Balkan neighbours, which are liberalising rapidly

in the private sector.

The recovery in manufacturing adds to pressure from private sector trade unions for more generous increases in 1996, while public sector workers are growing impatient for real wage increases after four years of marginal rises. But unless wage increases are again contained, the chances of reducing inflation to 5 per cent by the end of 1996 will be in doubt.

Mr Stournaras says: "There is tremendous pressure on wage and pensions policy. We've agreed to raise the lowest tier of pensions next year, but wage increases must be held down or the convergence targets will be at risk."

Efforts to shrink the budget deficit to 7 per cent of GDP next year will be based on another drive to improve tax revenues, rather than through spending cuts. New measures to curb tax evasion, together with the abolition of special

tax allowances enjoyed by a wide range of Greeks are expected to boost revenues.

The government's critics argue that without a determined effort to reduce outlays, preferably through cuts in the bloated state payroll and dis-

posal of state enterprises, it will be hard to keep the deficit on a downward track.

Public investment is set to increase by 8.7 per cent this year, mainly through inflows from the EU structural package for helping poorer member states achieve economic convergence. There have been delays in disbursement, end of this year. This would allow the debt to GDP ratio to fall in 1996.

Commercial borrowing rates have also tumbled, prompting a steady rise in private investment projected to reach 7.5 per cent for the year. Thanks partly to EU grants, larger amounts of funding are now available.

Investment subsidies amounting to Dr230bn (562m) were granted in the first half of the year, and another Dr550m is likely to be approved by year-end. The bulk of the new investment involves Greece's flourishing food processing industry, but textile and metal products manufacturers will also benefit.

Public investment is set to increase by 8.7 per cent this year, mainly through inflows from the EU structural package for helping poorer member states achieve economic convergence. There have been delays in disbursement, end of this year. This would allow the debt to GDP ratio to fall in 1996.

blamed mainly on inefficiency in the Greek public administration, but funds for infrastructure projects are being absorbed at faster rates.

The effects of higher investment are already feeding through into the labour market. The official unemployment rate is stable at 9.6 per cent despite an increase in the size of the workforce, swollen by economic migrants from former communist countries.

Yet the recovery is still uneven. Jobs are being created in Athens as the service sector expands, but factories in the provinces are shutting down. While manufacturing has picked up, construction shows little sign of following suit.

Four years of recession, together with new fiscal measures designed to curb tax evasion, appear to have had a dramatic effect on Greek spending habits. Retail sales fell in the first half of the year, as did output of consumer goods. Private consumption is expected to rise by 1.5 per cent this year.

Exports are recovering, showing a 22 per cent rise in the first eight months of 1995, despite the strength of the drachma. However, exporters complain that the currency is overvalued by comparison with the other Mediterranean EU members and that markets in western Europe are being lost to Spain and Italy.

Greece's surging exports to the former communist countries of eastern Europe help compensate for its declining competitiveness in EU markets. Though volumes are still low, the transition of these countries to a market economy is seen as an unprecedented opportunity for Greek exports in the longer term.

However, the current account deficit doubled between January and August to \$2.5bn, the result of a sharp rise in imports and a decline in invisible receipts, including EU transfers delayed by bureaucratic obstacles in Brussels and Athens.

The most encouraging sign was an estimated 25 per cent rise in imports of machinery and equipment by Greek manufacturers, pointing to improved productivity next year.

PROFILE Yannos Papantoniou

## A low key survivor



Yannos Papantoniou admits privatisation policy is weak

confrontations. I'd rather try to build consensus on issues."

However, Mr Papantoniou cannot avoid battles over economic policy. They would happen more often, he says, if he had not developed a working relationship with the unions a decade ago when he oversaw state enterprises as a junior undersecretary at the economy ministry.

This time last year he

persuaded both public and private sector unions to accept wage and pension increases below the projected inflation rate for 1995. It may be more difficult to repeat the achievement this year.

Mr Papantoniou has been less successful in convincing the public sector unions to accept flotation of state enterprises on the Athens stock exchange. The disastrous failure of last year's attempt to sell 25 per cent of OTE, the state telecommunications monopoly, to domestic and foreign investors came close to upsetting him.

But given the pressure from Brussels on privatisation, Mr Papantoniou cannot afford to give up. "There's no denying that privatisation is the weak link in our policy, but there's strong social and union

resistance, and often legal problems too. We're persisting and there should be results in the next few months," he says.

The compromise solution for OTE, to be attempted early next year, is to sell only 8 per cent of the company, restricting the size of the tranche offered to foreign investors to just 2 per cent.

However, the determination of Greek public sector unions to resist payroll cuts, spending caps or improved management practices is unlikely to change until telecommunications, power generation, air transport and other monopolies are opened up to competition.

In other respects, Mr Papantoniou believes that Greece is moving closer to its Mediterranean partners in the EU, thanks to inflows from EU structural funds, rising private investment and an increasingly sophisticated capital market.

The conventional economic wisdom has been that Greece is a special case, that the usual policies won't be effective here, he says. "I don't think that's so any longer."

Kerin Hope

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**Delta**

### An Internationally Competitive Company

Having established itself as Greece's premier dairy franchise, DELTA's corporate mission in the 1990's was the creation of a state-of-the-art production base, capable of being internationally competitive. The company's aim is to become an important player in the markets of Europe, the Balkans and further to the East.

DELTA has thus built one of the largest and possibly the most efficient production base in the Balkans consisting of:

- A fully automated dairy and fruit juices plant in Tavros, Athens with 21,500 sq.m. of covered working space. The plant employs 300 persons and has a daily pasteurisation and homogenisation capacity of 850 tons of milk. It can also produce 300 tons of fresh juices per day representing a total investment of 16 billion drachmas (approximately \$50 million).
- A sophisticated yogurt plant at Aghios Stefanos, Attica which can process 150 tons of milk daily and pasteurise 40 tons hourly. Its automated production process needing only 270 persons to run it, and its 17,000 sq.m. of covered working space represent a total investment of 14 billion drachmas (approximately \$35 million).
- A revamped ice cream plant in Tavros, Athens. More than 3 billion drachmas (\$9 million) were invested recently to create the necessary production conditions for the most advanced forms of ice cream.
- A modern ice cream plant at Varna, in Bulgaria with an investment value of US\$ 5 million. It employs 330 persons and serves as the company's expansion base in the Balkans.
- A full juice production factory in Switzerland. In a joint venture with the local company MILCO for the placement of fresh and natural fruit juices in other European countries.
- Two modern frozen food plants in Larissa and Thessaloniki, with an undepreciated assets value of 5.5 billion drachmas (\$15 million) which employs 260 people and cover more than 80% of the market in Greece.
- Eleven milk collection stations, spread throughout Greece, for an investment of 3.5 billion drachmas (nearly \$9 million) which employ 157 persons.

A fleet of 800 refrigerated trucks supplies on a daily basis all five of DELTA's distribution networks (milk, fruit juices, yogurt, ice cream, frozen foods) with 45,000 sales points and more than 50,000 installed refrigerators, freezers and window displays.

Despite the implementation of a 53.5 billion drachma investment plan over a five-year period from 1989 to 1994 (30% of which was self-financed), DELTA's financial results are also impressive. With sales of 72.7 billion drachmas (nearly \$200 million) and profits before taxes of 6.1 billion drachmas, DELTA has shown an amazing resilience at generating sales and profits in an intensely competitive environment, burdened with political difficulties and macro-economic imbalances.

DELTA plans to proceed with the implementation of its expansion plan, based on its sound financial position - its net worth exceeds the 60 billion-drachma mark - its strategic alliance with Groupe Danone, and its market leadership within Greece and the Balkans.

The first steps in this direction have already been taken. DELTA has established a joint venture with local partners in Bulgaria, operating two companies, DELTA-P and DELTA-T and for the production and distribution respectively of ice cream to 5,000 sales points.

DELROM is another joint venture with local partners in Romania, to sell ice cream. The company holds 25% of the local market and is supplied by the plant in Bulgaria.

DELTA UKRAINE is also supplied from Bulgaria and this joint venture serves as yet another example of Delta's aggressive expansion plans outside Greece.

In partnership with MILCO, DELTA is placing fresh and natural fruit juices under the labels of DELIOS, SUNFRUIT and DELIJUS in French, Italian and Swiss supermarkets.

*In partnership with DANONE, which holds a 20% interest in DELTA, the company is moving ahead to ensure its entry into European markets and is committing important resources in its efforts to further expand and achieve leadership positions in the Balkans, the countries of the former Soviet Union and the Middle East.*

■ Infrastructure: by Kerin Hope

## Slow progress toward faster transport

Inadequate transport infrastructure is hampering exports and tourism

Greece's plans to build a motorway from the Adriatic to Istanbul, a new international airport for Athens and a suspension bridge across the Gulf of Corinth were drawn up over 20 years ago. But policy switches and budget constraints prevented these and many other projects from getting under way.

Since 1989 large amounts of EU aid made available under the Debrs II package have created new opportunities for modernising the country's infrastructure. The three "big projects" have been revived together with a host of smaller transport projects.

Greece is entitled to a total of Ecu13.5bn (£11.2bn) from the package, together with another Ecu2.5bn from the cohesion fund for improving transport and environmental protection in poorer member states.

Greece is at a competitive disadvantage in the single market as the only EU country lacking a land border with another member state. The relatively high cost of reaching European markets has risen further because the war in Bosnia has blocked the main overland route to Germany.

Improved roads and ports will assist companies exporting to the EU as well as those entering new markets in the Balkans and southern Russia. Greek exporters complain that the rail network is not equipped to carry container traffic, that most big roads have not yet been upgraded to four lanes and that harbours are congested, especially during the tourist season.

The poor state of Greece's infrastructure also serves to deter potential foreign investors. Among other things, they cite overcrowding at Athens airport and the limited numbers of international flights to provincial cities, which still lack radar equipment.

Over half the EU package will be used to finance transport projects, with Greece cov-

ering about 30 per cent of the cost of most projects out of the state investment budget.

However Greece's limited budget resources mean that the largest projects will have to be funded through a mix of public and private sector financing. This will include soft loans from the European Investment Bank and commercial loan packages arranged by contractors.

Private funding will be needed to complete both big road projects included in the EU package: the upgrading to motorway standard of the 700km highway from Patras to Athens and the northern border with Bulgaria and the construction of the 680km Egnatia highway across northern Greece from the Adriatic coast to the Turkish border.

Disbursement of EU funds for road construction has been running behind schedule because of the Commission's insistence that the public works ministry should modernise outdated procedures for awarding contracts and appoint international project managers to oversee big transport projects.

Last month, however, the public works ministry selected Brown & Root, the UK-based project managers, to oversee construction of the Egnatia highway linking Igoumenitsa in north-western Greece with the Turkish border in Thrace. Construction of the \$3.5bn highway, currently the largest toll road project in Europe, is expected to start next year and take six years to complete.

Mr Stathis Kormentzas, Brown & Root's representative in Athens, says: "This project will open up the whole of the southern Balkans. The Egnatia would be linked up with five new roads running south from Albania, the former Yugoslav republic of Macedonia, and Bulgaria."

Brown & Root will set up and run a state-owned Greek company, Egnatia Odos, which will build and operate the highway. Three international contractors will be selected to supervise on-site operations and conduct bidding for building sections of the highway. Because of the project's size, international as well as Greek construction companies are



Trucks queue to load fresh produce on to vessels at Piraeus, the port that serves Athens. Investment is needed to improve roads and ports, particularly those linking Greece with Balkan trading partners

expected to participate.

Construction of the new Athens airport at Spata, east of the city, is also due to start early next year as a build-transfer project led by the German company Hochsif.

An international consortium led by Hochsif will build and operate the new airport for 30 years in partnership with the

its Dm370m equity stake in the Athens International Airport Company out of proceeds from a special tax on passengers using Greek airports.

As well as Hochsif's equity contribution of Dm331m, the financing package is expected to include a Dm1.9bn loan from the European Investment Bank, a Dm727m grant from the EU structural package and a Dm610m commercial loan guaranteed by Hermes, the German export credit agency.

Mrs Anna Pouskouri of Bayreische Vereinsbank, which is arranging the loan package says: "This is a new approach to financing big infrastructure projects in a country that doesn't have a lot of cash. It doesn't overburden either the public budget or the private sector, and there's a good distribution of risk."

Another complex financing package will be needed for the Ecu445m project to build a suspension bridge between Rion and Antirion in western Greece. The contract with a Franco-Greek consortium led by GTM International, which would build and operate the 2.5km bridge as a toll facility

for 25 years, is due to be signed by the end of the year.

The need for international expertise in project management and financing for large-scale projects in Greece is underlined by the problems of an Ecu2bn project to bring natural gas from the Bulgarian border to Athens and set up a distribution network for supplying industrial and domestic customers.

The gas project, which is mostly funded by the EU and managed by DEPA, the state gas corporation, is already three years behind schedule. Although the main pipeline has been completed and Greece will start buying gas in January from Gazexport, the Russian gas supplier, DEPA will have only a handful of customers on its books when the project goes live.

Because of delays in setting up the legislative framework for distributing natural gas, construction of city gas networks has not yet started, while Greece's only gas-fired power station cannot be linked to the natural gas supply until a 70km subsidiary pipeline is built.

■ Shipping: by Louise Briggs

## Market loses impetus

Increased capacity has reduced demand for new and second-hand vessels

The frenetic pace at which Greek shipowners were buying second-hand tonnage has slowed in recent months as newly-built vessels have increased the capacity of the international fleet.

Greek owners control the world's largest commercial fleet, representing 16 per cent of total cargo-carrying capacity.

According to a study earlier this year by the Union of Greek Shipowners and its UK-based counterpart, the Greek Shipping Co-operation Committee, Greek owners control a total of 3,142 vessels totalling 126,121 deadweight tonnes.

Despite a surge in new vessel construction by Greek owners, with 89 vessels on order at the time of the study, two-thirds of the Greek-owned fleet is over 15 years old.

Trading in second-hand tonnage is dominated by Greek owners, for whom asset plays are often as important as earnings from cargo carrying.

While many deals go unreported, shipping analysts estimate that Greek owners last year paid a total of more than \$2bn (£1.2bn) to acquire over 300 vessels totalling around 14m deadweight tonnes.

One UK-based ship broker estimates that another 13.5m deadweight tonnes was purchased by Greek owners between January and August this year for a total outlay of around \$2bn. However, the trend has started to shift in recent weeks as Greek owners pull back from further acquisitions.

One Piraeus-based broker says: "Potential buyers have been letting the cancellation date slip by without coming up with the 10 per cent down payment required."

The shipping industry has benefited from five years of healthy freight rates, particularly for dry cargoes, which have encouraged owners worldwide to invest in new shipbuilding.

At present, around five new dry cargo ships totalling about 350,000 deadweight tonnes are

being delivered every week by shipyards in Asia. At the same time scrapping of ageing tonnage has slowed down because of strong demand in the second-hand market.

Piraeus-based owners and brokers believe that supply is now starting to outstrip demand in the dry cargo market.

With freight rates showing a drop of 25 per cent on the year, speculation is strengthening that a downward adjustment in tonnage prices is imminent.

One broker says: "Recently the differential between prices for new shipbuilding and for youngish second-hand tonnage has shrunk to the point where some owners are opting for new vessels."

The reluctance of Greek owners to commit themselves to new deals suggests they are waiting for second-hand tonnage prices to follow the downward curve of freight rates, with the aim of picking up the same ship for a bargain price. But with more new tonnage on the market, fewer

each from Daewoo.

They are already looking ahead to the introduction of the International Safety Management Code, which must be adopted by tankers, bulk carriers and passenger ships by the end of the century. According to the International Maritime Organisation, international shipping operations will have to manage their ships according to standard practices and companies will be subject to a management audit.

The code is expected to force Greek owners, who pride themselves on flexibility and fast decision-making, to run their operations in a more structured way. Decisions on ship sales and purchases are likely to become part of a longer-term strategy for fleet planning.

One ship manager says: "By adopting standards for a class of vessels, whether it's on spare parts procurement or any other aspect of management, you start taking a longer-term view of the business."

The code will have the big-

Piraeus: shipowners are pulling back from new acquisitions

charters may be available for older vessels. One analyst says: "There's a wealth of new ships being built but not enough ships going for scrap. There's nothing wrong with the demand side at the moment, but oversupply is bound to push freight rates down."

Greek owners are ordering several new ships from South Korean yards. The Carras group, for example, has placed a \$170m order for four vessels of 168,000 deadweight tonnes each at the Hulud yard. The Fostopoulos group has ordered three 44,000 deadweight tonne vessels at \$25m

gest impact on medium-sized shipowners who control 10-15 vessels, rather than on larger owners who are already required to apply modern management practice because of the size of their fleet.

Nonetheless, the structure of the Greek shipping industry, in which large fleets can be built up from scratch over three to five years by owners willing to undertake high risks, or dissolved by owners withdrawing from the market after consolidating their gains, suggests that trading in second-hand tonnage will remain active for the moment.



### A Profile

Since its founding 85 years ago, LAVIPHARM has established a tradition of quality and consistency, specialising in cardiological and pneumonological medications. During this time, not only have company sales grown, but LAVIPHARM has pioneered new directions in research and development, in the provision of services to the medical community, and in the globalisation of the Greek pharmaceutical industry.

The LAVIPHARM Group consists of five companies which allow it to maximise synergies and capture emerging market opportunities. It has a strong market presence in Greece and has entered into strategic alliances and cooperations with well-known multinational companies such as SYNTHELABO, RHONE-POULENC RORER, HOFFMANN LA ROCHE, KNOLL-RAVIZZA, SANDOZ, HOECHST, AMERICAN CYANAMID, PROCTER & GAMBLE, COLGATE-PALMOLIVE, L'OREAL, AVON, HELENE CURTIS and others.

Today, the LAVIPHARM Group of companies is the largest integrated pharmaceutical and cosmetic group in Greece, handling everything from development to manufacturing, distribution and marketing of pharmaceuticals and cosmetics for itself and for third parties.

One of LAVIPHARM's major strengths is its commitment to Research and Development where it invests annually over 5% of its sales. It has successfully concentrated its efforts in innovative technologically advanced products such as new drug delivery systems, especially transdermal and oral controlled release pharmaceuticals. LAVIPHARM's transdermal nitroglycerin patch - already commercialised in France and Italy and soon to hit the market in the rest of Europe, Canada and the U.S. - is distributed by the major multinational players in the cardiovascular sector.

LAVIPHARM's fully automated production facilities operate in accordance with the strictest international standards of quality and use the latest available technology, always with an eye to improving productivity. The newest addition, the transdermal production unit, has a capacity of more than 100 million patches per year.

The Group's dynamic entry into the field of services is also marked by its 2500 square metre, state-of-the-art distribution centre. It distributes 4000 pharmaceutical and 2000 parapharmaceutical products, can fill 800 orders per hour, and serve 4000 pharmacies, 180 pharmaceutical warehouses, and 193 hospitals throughout Greece.

LAVIPHARM's representatives regularly visit more than 13,000 doctors, 4000 pharmacies, and 3000 supermarkets, while its 11,000 direct sales dealers visit tens of thousands of households and are constantly expanding.

In 1994, Group consolidated sales in Greece reached 19 billion representing an average annual growth rate of 32% between 1990 and 1994. At the same time, profits increased tenfold, to 1.6 billion GRD. Employment currently stands at over 500 people, and investment has topped the 5 billion GRD mark.

Much of the company's success can be attributed to its program of management and human resources. Fully one third of LAVIPHARM's scientific and managerial staff hold advanced and post-graduate degrees, while each year 35% of personnel enrol in programmes of continuing education and professional development.

For the next few years, LAVIPHARM's corporate mission is to build on the comparative advantage it has gained and to continue its innovations and expansion in Greece and abroad. More specifically, in Greece, the Group aims at further enhancing its presence in the service sector, capitalising on new distribution channels such as supermarkets, and penetrating new growth areas such as the OTC market.

Internationally, LAVIPHARM plans to continue with its strategy of conquering niche markets on the basis of its technological advantage. Using its production facilities in Greece, the Group plans to expand its presence in Europe and America either alone or in collaboration with reputable pharmaceutical companies already strong in these markets and will enter the emerging markets of Eastern Europe and of the former Soviet Union.

With a defined corporate mission, a successful record and a clearly established strategy, LAVIPHARM will be able to fulfil the expectations of its shareholders in terms of both growth, profits, innovations and international competitiveness.

## GREECE LAND OF DREAMS

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■ The Athens stock exchange: by Kerin Hope

## Bourse needs reform

The Athens stock exchange would benefit from privatisations and pensions reforms

The Athens market has traded in a narrow range for much of this year, fuelling investor impatience for institutional reforms that would broaden the market and allow new products to be introduced.

The market was up 9 per cent on the year at the end of September, thanks largely to increased interest in Greek equities among foreign institutional investors. Daily share turnover improved over the summer to average Dr1.5bn (£12.2m) in September, compared with Dr3bn in the first quarter.

Market capitalisation reached Dr3.9 trillion at the end of September, an 18 per cent improvement in drachma terms from a year earlier. In US dollar terms, it has gained 24 per cent thanks to the "hard drachma" policy which has revalued the Greek drachma against the dollar in the past 12 months.

But with interest rates on tax-free government bonds still at over 14 per cent, local investors have little incentive to switch to equities. The index has recently been sluggish, failing to test the 1,000 level which analysts consider the springboard for another rise. Many forecasters expect that the market will stay quiet for the rest of the year.

Mr Theodore Dergiannikoglou of Midland Pantelakis Securities says: "There's some speculation in small capitalisation stocks by local investors and the blue chips continue to attract institutions from abroad. But there's no driving force behind the market."

However, a more stable economy helps to underpin the index, with inflation maintaining a steady decline. Growth is picking up with the launch of several major projects co-financed by the European Union and with a spurt in private-sector investment.

Listed companies announced better first-half results, while projections for 1995 earnings are optimistic. The outlook seems promising for construction and metallurgical companies, which should do well out of EU-backed infrastructure projects. Food processors with plans to expand their presence in other Balkan markets should also prosper.

### The outlook is particularly promising for construction and metals companies

The market's strengths are overshadowed by political uncertainty. The bourse reacts immediately to rumours about prime minister Andreas Papandreou's health, a dispute between rival factions in the governing Socialist party, or fears that events in Bosnia may be taking a turn for the worse.

Now is the time, analysts argue, for the bourse authorities to introduce long-promised reforms to improve the efficiency of transactions, increase volume, and attract larger numbers of domestic and foreign investors.

Mr John Marcopoulos, head of Sigma Securities, the biggest Greek brokerage, says: "There's some speculation in small capitalisation stocks by local investors and the blue chips continue to attract institutions from abroad. But there's no driving force behind the market."

Almost 50 Greek companies joined the bourse last year, raising Dr100bn in fresh capital. They included a sizeable number of industrial compa-

nies for whom a listing was part of a management overhaul undertaken to boost competitiveness in the single market.

But the pace of new listings slowed this year, after the bourse set tighter regulations for would-be entrants following the failure of several newly-listed companies to meet earnings projections for 1994. The size of public offerings has also shrunk this year, averaging around Dr1.5bn.

One way of deepening the market would be through flotation of public sector enterprises. But plans for offering minority stakes in public utilities have been scaled back and delayed. The much-discussed listing of OTE, the state telecoms company, has been reduced from 12 to 8 per cent of the company and will not take place before next year.

Liberalisation of Greek capital markets in recent years does not yet extend to pension funds, whose limited equity holdings are generally restricted to shares in state-owned banks. The economy ministry is studying ways of freeing more than Dr1.5 trillion in pension fund assets so that both private and public sector funds can appoint specialist managers to handle invest-

ments in the stock exchange.

But given the finance ministry's continuing need to raise large amounts of debt financing, analysts believe that state pension funds are unlikely to be given the go-ahead to switch more than a fraction of their assets from government paper to equities.

The Athens stock exchange does not yet offer any derivative products, while the domestic bond market remains undeveloped, despite the finance ministry's regular issues of treasury bills and floating rate notes amounting to over Dr200bn monthly.

Moreover, there are practical restrictions on trading, as shares in many listed companies remain in the hands of a few family members, limiting the market's free float to an average of 20 per cent.

While steps have been taken to dematerialise shares traded on the bourse, physical settlement is still the general rule. Custody also raises problems, especially for overseas investors as only a few Greek banks provide custody services to international standards and charges are much higher than in other emerging markets.

The stock exchange itself charges a transfer fee amount-

ing to 0.3 per cent on transactions of registered shares, which are handled through a computerised book entry system.

Ms Mariella Porfyros, head of the Greek desk at Carnegie International in London, says:

"Though brokers' commissions have been liberalised, custody arrangements are already

expensive by comparison with other European markets. The extra burden of a transfer fee in Greece has an impact on margins that institutional investors must take into consideration."

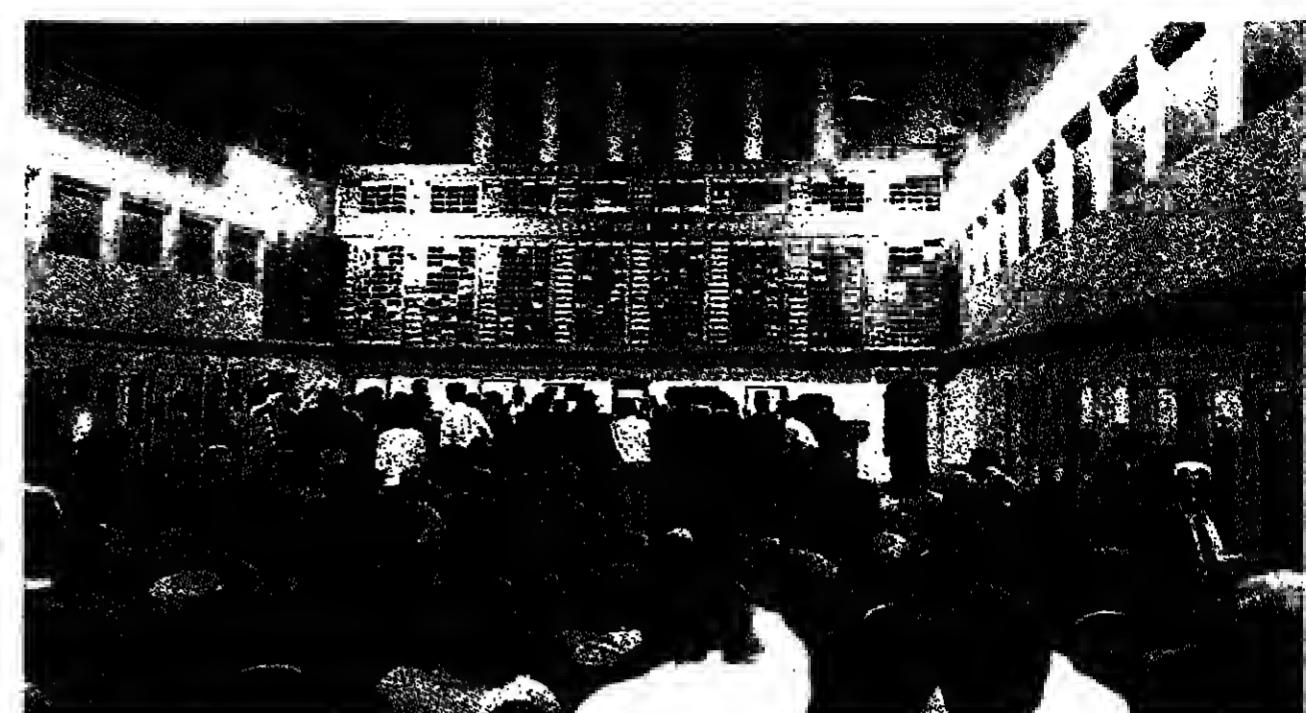
However, reform of the stock exchange means shaking off political controls which still have a dampening effect on

Greece's financial sector. Although the bourse is nominally independent, its status as a public sector entity means that, like state-controlled banks and pension funds, its managers are sometimes subjected to pressure from government officials.

Professor Manolis Xanthakis,

the stock exchange chairman,

says: "It's very difficult to overcome the bureaucratic mentality, with its fears about new products. We planned to launch derivatives this year, starting with options on the index and moving gradually to more complex products. But it's been delayed once again because of lack of backing at the political level."



Brokers on the Athens stock exchange are lobbying for structural reform to broaden the market

■ Accounting: by Kerin Hope

## Unreliable numbers

The poor quality of local auditing is a headache for public sector organisations

The socialist government's discovery in Greece's national accounts of a Dr300bn (£2.5bn) error in its favour underlines the problems it faces in reforming the country's auditing system.

Economy ministry accountants overlooked an increase in state pension fund and hospital revenues for three successive years. The pension funds moved into the black after a sweeping overhaul of Greece's welfare system in 1992 and were earning high incomes on investments in government bonds. The cash accounting system used at Greek state hospitals failed to record increasing Greek banks and companies which have been expanding rapidly in EU and eastern European markets.

Not only does this arrangement conflict with single market rules, but there are doubts whether SOL's accountants, who are trained within the organisation, can master the increasingly complex task of auditing Greek banks and companies which have been expanding rapidly in EU and eastern European markets.

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Increased foreign investment in listed Greek companies, including state-controlled banks, adds to worries about auditing standards.

These are likely to increase as state-owned utilities join the bourse under the government's programme for partial privatisation through flotation of minority stakes.

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But since the government has so far made no move to establish a framework for Greek auditing after SOL's monopoly is abolished, there are fears that, as has happened in the past, it will be quietly extended.

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## 6 GREECE

■ Greek investment in eastern Europe: by Robert McDonald

# Familiar uncertainties

Greek companies adapt well to the eastern European business environment

Greek businessmen are presently committed to investments totalling more than \$500m (£316m) in former communist states, according to a recent survey published by Vionoforiki Epithorisis, the Greek business magazine.

Seven Greek companies, from banking to waste processing, have already won backing from the European Bank for Reconstruction and Development. Another four are in the pipeline.

Major Greek banks have opened branches or representative offices across the Balkans and are now moving into the Black Sea region.

Many Greek businessmen say they prefer the risks of entering eastern European markets to the difficulties of trying to stay competitive in the EU's single market.

The contradictions of Greek economic policy in the 1990s meant that companies grew accustomed to operating in an environment of political uncertainty, high inflation and currency instability not dissimilar to present conditions in former-communist states.

Mr Constantine Tsoukalides, general manager of Intracom, the Greek telecoms equipment manufacturer which has set up joint ventures in Russia and the Balkans, says: "We are



much at home in these countries. We understand the contradictions, the problems with customs, the problems with the tax department and so on."

Greek companies have another advantage, described by Mr Tsoukalides as "human capital that hasn't yet been properly tapped by the Greek economy". This is a reference to the second-generation Greeks living in eastern Europe.

While western European companies focused on Russia and the Visegrad group of central European states after the collapse of communism, Greek companies looked first to the Balkans.

Greece's biggest listed food and beverage companies were quick to move into Bulgaria and Romania, where they are now firmly established. Delta Dairy, the milk and ice-cream producer, has invested a total of \$15m in joint ventures making ice-cream in Bulgaria and in distribution systems for

holiday under Hungary's investment incentive law.

The companies, Piszkel Papir and Szentesdi Papirgyar, based near Budapest produce toilet rolls, paper napkins and wrapping paper and claim a 50 per cent market share in toilet paper.

Mr George Angelopoulos, general manager of Thracia Papermills, says: "We were offered an opportunity under the Hungarian privatisation programme and we grabbed it. We now have more capacity abroad than at home."

Greek entrepreneurs are also moving further afield. Meteo-Etep, the construction to oil trading and insurance conglomerate controlled by the Arvanitis and Hionis families, has invested over \$52m in Ukraine in agriculture, food trading and distribution.

The group has established a series of joint ventures with Ukrainian farm co-operatives to produce tomatoes and sunflowers, and raise cattle and pigs. The co-operatives have been placed under Greek management and are integrated with local processing and packing plants.

Meteo-Etep has invested another \$21m in trading operations in Ukraine to import food products to the state and export heavy machinery. It is building warehouses along the Don and Volga rivers and has chartered two vessels that are small enough to reach Volgograd in winter, the ships dock in the Azov Sea and goods are shipped by truck.

Mr Thanassis Karabalis, Meteo-Etep's head of industrial products and oil-trading, says the group has drawn extensively on its experience of trading in Arab countries in developing projects in Ukraine.

Until now Meteo-Etep has financed projects in the former Soviet Union out of own resources. But as growth accelerates, with up to \$10m of investment planned over the

next two years, the group is looking for outside financing.

Another diversified Greek group, Vardinoyannis, is the majority shareholder in Varist AO, which is building a \$90m reprocessing plant for waste lubricating oil at Armavir in Russia's Krasnodar region. The plant will use the same technology as the Vardinoyannis group's processing unit in Greece to make lubricants for vehicle and marine engines.

According to Mr Yannis Vardinoyannis, in charge of the group's activities in Russia, most output will be sold in Russia, but if this proves difficult at first, one of the group's Greek companies will absorb the excess.

Mr Vardinoyannis says it will take time to build a market "because of having to set up our own distribution network, both wholesale to existing petroil distributors and retail to large customers".

The group has already developed a broad range of commercial activities in Bulgaria through a Cyprus-based holding company, Bulvar Enterprises. Its strategy is to set up joint ventures with local partners in which Vardinoyannis holds a majority stake.

The joint ventures include a chain of petrol stations and operations importing cars and accessories, food products and computers, as well as a ski resort.

Regardless of sector, Greek companies say they do not expect a quick return on their investments in eastern Europe. Many say they are committed to re-investing profits for at least three to four years.

■ Tourism: by Kerin Hope

# The prospects are poor



Greece is no longer happy to be a budget-holiday destination

Tourists spend too little time and money in Greece for the liking of the government

Greece's multitude of islands still offer unspoiled beaches and clear water, especially in the central and eastern Aegean. But crowded ferries, overbooked airliners and low-quality accommodation can deter all but determined backpackers.

Almost 60 per cent of visitors to Greece opt for a package holiday in a resort hotel on the island of Crete, Corfu or Rhodes. The average tourist now stays for 10 days, rather than 7, stays over \$52m in local shops and restaurants.

This year, tourist arrivals are projected to decline by 12 per cent to around 12m. Tour operators expected a rise in hotel charges to be offset by currency depreciation. But the drachma's strength over the summer caused a wave of cancellations.

Mr Stavros Andreadis of Sani, a northern Greek holiday centre, says: "Greece now attracts low-spending tourists, often people taking a second, shorter holiday. We can't fully exploit the advantages of a long season, a huge variety of landscape and an exceptional cultural heritage, largely because there's no policy framework for tourism."

Tourism is Greece's largest source of income, accounting for an estimated 9 per cent of gross domestic product. The tourist industry is also the biggest employer, absorbing about 11 per cent of the workforce in the peak summer months.

However, spending on tourism infrastructure, monuments and museums accounts for less than 2 per cent of the state investment budget.

Greece is a popular sun-sea destination, particularly with British and German visitors. There is considerable potential for growth in niche sectors like marine and ecological tourism.

But after 20 years of intensive development, older hotels are in urgent need of refurbishing and the wear-and-tear on the coastal environment is starting to show. Greek tour operators point out that in the package tourism market Greece lags behind Turkey on price and Spain on quality, it is failing to attract high-spending visitors.

A study by SETE, a private-sector association of hoteliers and travel agents, and Horwath Consulting Hellas identifies a series of obstacles. These include inadequate facilities at provincial airports which are not equipped to handle large numbers of passengers; a shortage of first-class and luxury hotels; strikes by guards at archaeological sites; low standards of service at hotels and restaurants; and a lack of environmental awareness.

The dearth of luxury hotels, which account for less than 1 per cent of Greek hotel capacity, is partly due to a ban on building new resorts in the 1980s, on environmental grounds.

Permits were granted instead for building small hotels in less developed areas. Apart from a few conversions of traditional mansions on the islands, these hotels belong mostly in the second-class and third-class categories and have few facilities.

Incentives in the form of tax breaks and grants are now available for building luxury resort complexes in undeveloped areas which would include marinas, conference centres and golf courses. But there will be few applications until the infrastructure in regions offered for development.

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# UK ELECTRICITY

## Takeovers redraw industry map

Michael Smith on the forces shaping one of Britain's most talked-about sectors

**R**arely, if ever, has a UK industry faced so much upheaval in such a short period of time.

It is not just that more than half of the 13 regional electricity companies in England and Wales have received takeover offers, some welcome, others not. As important has been the identity of the companies making the bids.

Takeovers by those already involved in electricity - including National Power, PowerGen and Scottish Power - will produce big integrated companies combining generation and distribution, in sharp contrast with the structure at privatisation almost exactly five years ago.

At the same time, powerful regionally-based utility groups will emerge from the takeover of power companies by water utilities. North West Water has already taken over Norweb while Welsh Water is making moves on South Wales Electricity (Swalec).

The creation of super-units, either by combining electricity generators with distributors or by adding electricity companies to water companies, is not welcomed by some free market champions who believe it concentrates too much power in industries that, at least in part, remain monopolies.

An industry that has been exposed over the past year to strong criticism - fanned by the press - from the public and from politicians over what are seen as excessive rewards for shareholders and industry executives, is faced as a result with another controversy to add to the issues already dogging it.

These include the forthcoming flotation of National Grid, the transmission company, and British Energy, the nuclear power group, both of which are being used by the Labour Party to point out what it sees as faults in utility privatisation.

Mr Tony Blair, the Labour leader, does not intend to take any electricity companies back into the public sector, in part because the state could not afford the price tag. But he and his colleagues have already announced plans for significant changes in the way the industry is regulated, and for a tax on the so-called "windfall profits" of the water and electricity companies, which they believe have resulted from slack regulation. Estimated as likely to levy some £3bn on the privatised utilities, Labour believes it will be enough to kickstart its employment creation programme if it gets into office.

Investors have so far tended to focus on the potential effects of the windfall tax but it is unlikely to affect significantly the companies' ability to increase their payments to dividends.

Instead, the proposed regulatory changes would probably have a bigger impact in the long run.

Analysts believe that even with the windfall tax the regional electricity distribution companies - whose profits mainly come from distributing power - should be able to increase dividends by considerably above the stock market average.

Prof Littlechild says he has an open mind about such proposals but appears unenthusiastic. He says he held back from re-opening the pre-March 1995 price controls in part at least because they were set in place (by the government, he stresses, rather than by himself) when the companies were floated; altering them would have broken faith with investors. In addition, the price controls he established for the five

years from March 1995 (admittedly after two bites of the cherry - an earlier review was widely criticised as being too lax) are the toughest ever announced by a UK regulator, depriving the companies of £3.75bn of potential income.

Critics point out that they were not tough enough to deter National Power, PowerGen, Scottish Power, Hanson, Southern Company and Central and South West of the US, and North West Water from making bids for seven companies. But many analysts believe that this is an unconvincing argument. The companies were able to mount successful bids because they could

1. **Norweb**  
Subject of £1.8bn agreed bid from North West Water

2. **Morweb**  
Taken over by Scottish Power after £1.1bn bid battle

3. **Midlands Electricity**  
Subject of £1.9bn agreed bid from PowerGen

4. **Swalec**  
Welsh Water considering a bid

5. **South Western Electricity**  
Taken over in £1.1bn deal by Southern Company of Atlanta, US

6. **Southern Electric**  
Subject of £2.8bn agreed bid by National Power

7. **Seaboard**  
Subject of £1.8bn agreed bid by Central and South West of Texas, US

8. **London Electricity**  
Independent



see value in the companies that the stock market had not built into their share prices.

Nonetheless, the bids add to a feeling that Prof Littlechild is powerless to stop the changes in the industry he regulates. After all, he has argued that some of the offers should be referred to the Monopolies and Mergers Commission.

In rejecting him - so far at least - the government has countered that it is up to the market to decide the future shape of the industry.

With more bids almost certainly in the offing, the precise shape will take some time - perhaps even years - to

develop. But, just seven months after the government's bid-blocking "golden share" in the regional companies expired, the broad outlines are apparent.

If the government assets to the National Power bid - and that seems the most probable outcome of its deliberations - the power sector is likely to be dominated soon by four or five large companies with interests in both generation and distribution. Hanson will almost certainly be one of them, following its acquisition of Eastern Group.

But not all of the electricity companies will necessarily be part of large vertically integrated power companies. Some may follow the route of Norweb and agree to be swallowed up in a large utility-based organisation.

Other regional electricity companies (recs) may try to effect mergers within the sector. Some of the five remaining independent recs would prefer to combine with each other - and reap the benefits of joint cost-cutting - than to be taken over by companies with which they have less synergy.

Another one of their options is to remain independent. One way to achieve this would be to follow the example of Northern Electric, which has handed out large amounts of cash to shareholders to make itself less attractive to potential bidders.

Because the government holds a permanent golden share in them, the two Scottish companies and Northern Ireland Electricity enjoy some protection from takeovers. But the golden shares are not a guarantee against successful bids; ministers have the authority to assent to takeovers.

Like every company in the sector, Scottish Power, Hydroelectric and Northern Ireland Electricity will have to keep their wits about them to try to ensure they are satisfying both their customers' and their shareholders' needs.

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## 2 UK ELECTRICITY

■ Fossil fuel generation: by Michael Smith

## Duopoly under threat

New competition means PowerGen and National Power are not the force they were

Five years after electricity privatisation the debate about its merits and demerits is as heated as ever. But on one aspect of the sell-off there is near unanimity.

Virtually everyone – ministers included – agrees that the government was at fault when it privatised the England and Wales fossil-fuel generation industry as just two companies. The result has been that competition in this part of the industry – which claims the largest chunk of final electricity bills – has been limited.

National Power and PowerGen repudiate any suggestions that they have colluded as a so-called "duopoly" to raise prices. And several inquiries by Professor Stephen Littlechild, power industry regulator, have cleared them of anti-competitive behaviour.

Nonetheless, the generators' influence remains strong. Even with generation competition increasing, the two companies retain the whip hands in determining prices in the wholesale electricity pool – through which virtually all electricity in England and Wales is traded.

Change, however, is on the way. This is partly as a result of action taken by Professor Littlechild to force the generators to sell off 6,000MW of plant, and partly as a result of the growing number of players entering the market anyway. Nevertheless, it may be some time yet before pool prices are determined regularly by more than two or three companies.

Prices are set half hourly at the level charged by the most expensive generation unit needed to operate the system. The creation of only two fossil fuel generation companies at privatisation resulted from what was seen as the need to have one company, National Power, which was large enough to incorporate nuclear power stations.

In the event, the nuclear stations were retained in the public sector because of City re-

strictions about buying them. But by the time that decision was made, in late 1989, it was too late for the government to split up National Power and PowerGen and still carry out its 1991 flotation plan.

National Power and PowerGen never had the market to themselves. In 1991 exports from Scotland and France amounted to 8.5 per cent of the England and Wales market; Nuclear Electric had 18.5 per cent; and the National Grid transmission company's generation arm had nearly 1 per cent.

Nonetheless, that left National Power and PowerGen with 44 per cent and 28 per cent respectively, a total market share of 72 per cent.

Subsequent increases in competition are in part a result of the European Commission's decision in the early 1990s to lift a ban preventing countries from using gas to generate electricity.

Gas power stations are considerably more economic than new generation units that use coal or nuclear technology. The regional electricity companies saw their chance to enter the market and reduce what they saw as the National Power and PowerGen duopoly.

All but one of them, Manweb, subsequently participated in the so-called "dash-for-gas" by building combined cycle gas turbine stations, either by themselves or in partnerships.

Consequently, PowerGen and National Power still tend to determine the pool prices (although EDF, the Grid and even the Scots do so on occasions, too). Professor Littlechild's stipulation that they dispose of plant by the end of 1995 is designed to end this. PowerGen has already announced plans to lease for 25 years two plants with a combined capacity of 2,000MW to Eastern Group, part of the Hanson company. Eastern intends to make sure they set the pool price with some frequency.

National Power has also announced its intention to sell three power stations that would also be capable of running at marginal levels, although it has yet to settle on a buyer. It is talking to Eastern, and to the US companies Enron, AES and Mission.

■ Nuclear power: by Michael Smith

## Utilities' last privatisation taboo

The government's sell-off campaign is set to break ground that the City never thought possible

The government's campaign to privatise the most significant part of the nuclear power industry has got off to a predictably difficult start.

Alarms over safety and the proposals for a takeover by Nuclear Electric, based in England and Wales, of Scottish Nuclear have been seized upon by the opponents of a sell-off, including the Labour party.

Nonetheless, the government remains determined to complete the sale of the eight nuclear power stations earmarked for disposal by the summer of next year.

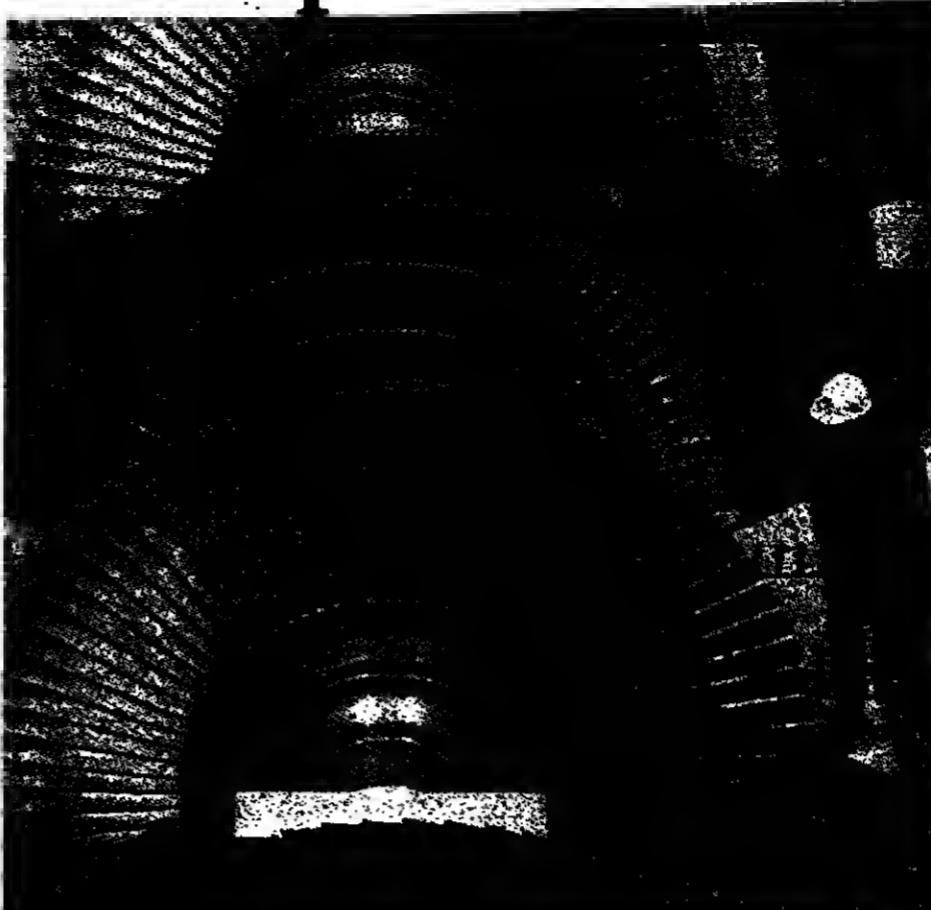
The likelihood is that it will succeed. Assuming it does, industry executives can claim a success that they once thought was beyond them.

This time last year, Nuclear Electric and Scottish Nuclear had all but given up hope of a receptive hearing for their pleas to ministers for a transfer to the private sector.

Ministers and civil servants remembered the bruising the government received in 1989, when, under threat of revolt by the City, it was forced to withdraw plans for selling off nuclear power stations along with the rest of the electricity industry.

Consequently, PowerGen and National Power still tend to determine the pool prices (although EDF, the Grid and even the Scots do so on occasions, too). Professor Littlechild's stipulation that they dispose of plant by the end of 1995 is designed to end this. PowerGen has already announced plans to lease for 25 years two plants with a combined capacity of 2,000MW to Eastern Group, part of the Hanson company. Eastern intends to make sure they set the pool price with some frequency.

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Sizewell B started producing electricity earlier this year, strengthening the sell-off case. Ashley Adcock

National Electric are on a par with some of those of the privatised electricity companies.

Although the department of trade and industry was still sceptical about privatisation at the start of this year, the Treasury was enthused by the amount of money that could be raised.

The benefit to an average family with a household power bill of £200 should work out at about £25 a year.

Ending the levy two years earlier than the planned 1998 will leave a hole of several billion pounds in funds to deal long term with waste and to decommission the Magnox stations, which are staying in the public sector. But presumably the government believes that problem can be tackled by future generations of taxpayers.

It's more immediate difficulty is to address public concern that power stations will be less safe hands after they move into the private sector.

The problem was highlighted by a court case in the summer when Nuclear Electric pleaded guilty to four charges of safety violations after a section of

crane dropped into one of 6,000 fuel channels in its Wyville reactor in Anglesey.

And last month Mr Richard Killick, Scottish Nuclear's director of safety until two months ago, warned that safety could be compromised by privatisation.

He said that plans to reward staff and executives of the privatised company with profit-linked remuneration and share options could lead to a "significant distortion" in safety as earnings growth became an important target.

However, evidence from privatisation of the rest of the power industry, which was sold off between 1990 and 1993, is that the safety record improves. Accident levels have fallen. In addition, the nuclear industry will continue to be monitored by the Nuclear Installations Inspectorate, which is confident its ability to do its job will be improved after the sell-off.

That is a blow for the nuclear industry. But some believe it is a price worth paying for being allowed to move into the private sector.

■ Regional electricity companies: by Michael Smith

## A story of surprising changes

As only half its companies remain independent, the sector cannot afford to relax

Ownership change in the electricity industry was always on the cards following the expiry in March of the government's golden shares in the regional electricity companies. But few people successfully predicted the scale of the transformation or its nature.

Most of the smart money early this summer was on Northern Electric, which was expected to face a renewed bid from Trafalgar House. The conglomerate had withdrawn an earlier £1.2bn attempt only after the electricity regulator announced plans to revise price controls.

Other bid speculation tended to centre on smaller companies, such as South Wales Electricity (Swalec), South Western (Sweb) and Seaboard.

But the two largest companies, Eastern and Southern, were considered likely to remain independent because of their size and reputation for strong management, while Norweb was also thought likely to resist the embrace of larger companies.

The market has eventually been proved right about the smaller companies' attractions but it was not until the last fortnight that Seaboard announced an agreed bid for its shares and Swalec was revealed as a target of Welsh Water.

The market, however, was wrong about other assumptions. Trafalgar announced it was no longer interested in Northern, which remains happy.

But Eastern was one of the first of the recs to code its independence – it has been taken over by Hanson – and shortly afterwards Southern fell into the arms of National Power.

Norweb resisted an initial approach from North West Water only after failing first into the arms of two US companies.

With Midlands and Seaboard having agreed to takeovers by PowerGen and Central and South West of the US, and

that the company has never been valued at much more than £1bn on the Stock Exchange. Some investors worry about its future, however. What happens if the Labour party decides to levy a windfall tax on utilities that is even greater than the £3bn it has indicated it intends to collect? Could Northern pay its share?

The handouts could also restrict Northern's ability to extend the business. It should be able to maintain its core distribution and supply businesses but expansion elsewhere, overseas for example, may prove difficult.

Indeed, before the takeover activity began in July the general assumption had been that mergers would be the most likely way by which the industry would be restructured.

However, mergers are not easy to effect, as Southern Electric discovered when it tried to get together this year with Midlands and then with Swalec.

One problem is that a takeover by one rec of another would be more likely to face a referral by the government to the Monopolies and Mergers Commission than bids from outside the sector.

Another is that the dominant rec would have to justify to its own shareholders why it is paying a premium for the shares of the company it is merging with. A straightforward merger involving the creation of new shares would be unlikely to produce share price premium.

Companies that want to remain independent are being advised by corporate financiers that their best bet is to return value to shareholders before a corporate raider can get its hands on funds.

Share buybacks and special dividends are the favourite methods of doing this. Yorkshire has already announced a £100m special dividend for its shareholders.

Northern has already put into effect a large part of its plan to return value by paying out a £1 special dividend and a £1 preference share for each share held. Assuming it goes ahead with further planned payments, it will have doled out more than £500m to shareholders; that is a significant sum when it is considered

close its overseas division and concentrate on existing businesses.

East Midlands Electricity has also found favour with investors for concentrating on distribution. It learnt its lesson the hard way by buying several businesses, including contracting, which went wrong and ended up costing it money.

But concentrating on the core is by no means a recipe for success or City approval. Of the 12 recs, Manweb has been the most faithful to its roots. It is, for example, the only one not to take part in gas-fired generation projects.

At first, the stock market liked the strategy but about a year ago investors started to mark its shares down, partly in reaction to concern about tighter regulation of the core business.

When Scottish Power decided to expand its business by buying a rec, it saw Manweb as the perfect target, in part because it could point to

Department of Energy is "far dirtier" than those of privately owned nuclear plants, according to a US official involved in handling nuclear waste.

Nonetheless, the UK government has an uphill task to convince the electorate that safety will not be at risk.

By contrast, much of British industry will have a sigh of relief if British Energy, the company combining Nuclear Electric's and Scottish Nuclear's most modern stations, is privatised.

With the nuclear industry in the public sector, there has always been the suspicion or fear that the government, whether Conservative, or Labour, would be tempted to subsidise it further.

National Electric has long suggested that subsidies would be a price worth paying because nuclear power provides the UK with a diversity of supply in its choice of fuel for generating electricity.

It wants to build a new power station, Sizewell C, in Suffolk, but acknowledges this would be difficult without "state support", read by many as a euphemism for subsidy.

In the government's recent nuclear review, a year-long exercise that culminated in the privatisation decision, ministers made clear they would not be prepared to subsidise future nuclear power construction.

The Labour party is still working out the energy policy it will present at the next general election. Several shadow ministers, including Mr Jack Cunningham, former industry spokesman, are thought to believe that subsidies should not be ruled out.

However, they accept that providing state aid would be virtually impossible if the industry was already privatised when the Labour party got into power.

Labour will oppose privatisation but it has no plans to take British Energy back into government ownership if the sale has already been effected.

All of this means that unless the economics of generation changes significantly in the next few years, the privatised part of the nuclear power industry is more likely to invest in other forms of generation, including gas-fired power stations, than in projects such as Sizewell C.

That is a blow for the nuclear industry. But some believe it is a price worth paying for being allowed to move into the private sector.

demerged from regional companies leaves grid with grid and plants

Joint venture from its own company of the grid and regional companies leaves grid with grid and plants

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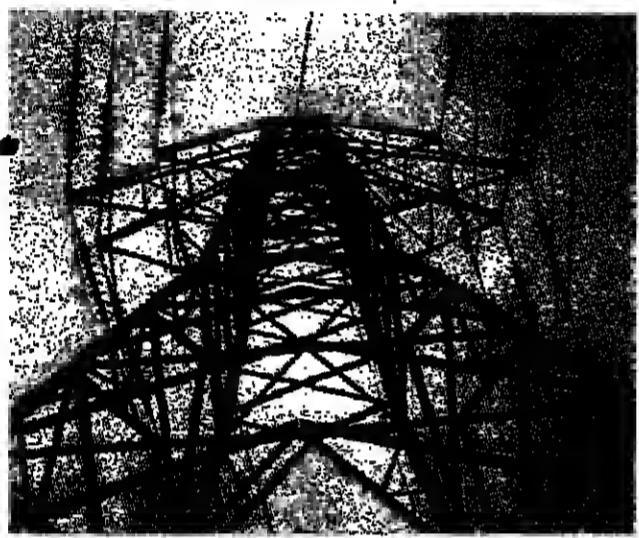
The National Grids by David Wighton

## Freedom for pylon king

Its demerger from the regional companies leaves the Grid with grand plans

The National Grid has waited a long time to escape from its parents. Ownership of the Grid, which operates the transmission system in England and Wales, was divided up between the 12 regional electricity companies when they were privatised five years ago. Calls for it to be demerged began almost immediately, but it is only now that it is finally to get its freedom.

Shares in the newly formed National Grid Group are due to start trading next month giving the company an approximate value of £2.5bn. Mr David Jones, chief executive, believes the main impact of the demerger will be on the Grid's prospects overseas. "We are the leading, independent, open-access transmission company in the world, which gives us considerable opportunities. The emerging markets of Asia are all coming forward with independent power projects



The Grid's high-visibility assets belie its relatively low profile. *Andy Adams*

and they need the transmission as well," he says.

But to make investments outside its core business, the Grid has required the agreement of its 12 regional electricity company shareholders, which as the wrangling over the Grid's demerger demonstrated, have increasingly divergent interests. "We will be masters of our own destiny," says Mr Jones.

Bigger than any of its original parents, the Grid will be the third largest company in the electricity sector.

Despite its size, however, and despite the visibility of many of its assets - particularly its 21,000 pylons - it generally has a low public profile. It might well, of course, argue that that is all to its credit. Its direct customers are a handful of electricity generators, suppliers and large users, and most domestic consumers are

only aware of it if something goes wrong. Give or take the odd hurricane, this hardly ever happens.

In addition to maintaining the infrastructure, the Grid is responsible for ensuring that there are always enough power stations running to meet demand and that they are used in the most economical way.

This is a tricky business. Just how tricky was highlighted by the events of July 19. Demand was greater than expected in the morning and a number of power stations were taken out of operation at short notice, leaving the Grid low on capacity in the south of England. Although there was no question of power cuts, it was forced to consider voltage reductions before the crisis passed.

The Grid's job is made more difficult by the fact that it has no direct control over the power stations. Before privatisation, it was managed alongside the power stations as part of the Central Electricity Generating Board. This meant that both short and long-term planning of power generation was done with the requirements of

increase only by inflation minus 3 per cent. The most significant event for the Grid over the next few years will be the announcement next summer of its new pricing regime.

The new cap, effective from March 1997, is likely to be tighter still. This means that meaningful profit growth in the regulated business will come largely from cost cutting.

The Grid has been as successful as its parents at reducing its costs, slashing staff numbers by 30 per cent to 4,500 since privatisation.

There is every sign that there is more to come. The recent reorganisation of the company, which separated network operation from maintenance and construction, is expected to put further pressure on costs, while the new National Control Centre at Wokingham, completed in 1993, will allow most of the regional centres to be closed.

As a result, the stockbrokers County NatWest predict that the wage bill in 1997 will be 12 per cent below the 1994 figure, excluding redundancy costs.

In addition to the transmission system, the company owns the two interconnectors that join the England and Wales grid to Scotland and France, and is responsible for the operation of the pool, the wholesale electricity market.

Its two pump storage power stations in Wales are being transferred to the reccs and are up for sale, leaving Energen as its only significant non-transmission business in the UK.

The result of a £300m investment, Energen is a telecommunications business based on a 3,500km network of fibre-optic cable strung on the Grid's transmission pylons.

Although the Grid has high hopes for it, City opinion is divided over its value - its start-up losses last year totalled £53m. Analysts believe the Grid will sell all the business - or a large stake in it - in due course.

One reason some of the reccs are reluctant to see the Grid leave home was that it helped pay the bills - they received £162m in dividends last year. The Grid, however, intends to continue its generous dividend policy when demerged, predicting annual increases of more than 8 per cent over the next two years.

The payment of a one-off special dividend to the reccs will leave the Grid with gearing of more than 100 per cent.

But its strong cash flow will mean it has ample resources for investment in the UK and overseas.

But the vast majority of its revenue consists of charges for the use of the network. These are controlled under a formula laid down by Offer, the electricity regulator.

Since April 1 1996, the revenues have been allowed to

the transmission network in mind.

Under the terms of its demerger, the Grid is required to connect new stations to the network for an appropriate fee. These fees vary according to where the stations are located. The idea is to encourage the building of new capacity in the south of England, where there is a shortage of generation, and discourage it in the north where there is a surplus.

Thanks to the rash of new gas-fired stations, connection fees have, over the past two years, provided a useful boost to the Grid's income.

But the vast majority of its revenue consists of charges for the use of the network. These are controlled under a formula laid down by Offer, the electricity regulator.

Since April 1 1996, the revenues have been allowed to

Competition by David Wighton

## A 'big bang' that could backfire

Deregulation in 1998 is intended to benefit domestic users. But sceptics are plentiful

If all executives of UK electricity and gas suppliers had already bought their 1998 diaries one date would circled in red: April 1.

On that day, the domestic supply monopolies in both gas and electricity will be broken, allowing 22m consumers to shop around for the best buy. Their supplies will still be delivered through the network owned by British Gas or their regional electricity company. But the gas itself could be supplied by the electricity company and the electricity by British Gas.

A great deal needs to be done before either industry is ready for this revolution, but it is already having an effect. The wave of bids in the electricity sector is driven partly by the threats and opportunities posed by it. It also explains the gas regulator's concerns about contracts that commit British Gas to pay for £40bn of gas over the next 10 years.

Yet some sceptics believe the big bang could prove to be a damp squib, at least in electricity. They point out that competition is only being introduced into the electricity supply (that is the buying and selling of electricity). The actual distribution through the wires will remain a local monopoly, while generation is already competitive. Supply is a relatively small business, accounting for only 7 per cent of household bills. And the suppliers' margins are thin.

That suggests that suppliers have little hope of reducing their prices. Domestic customers, however, are unlikely to be

persuaded to switch without the prospect of significant savings.

Mr Tony Boorman, who heads the 1998 project at Offer, the electricity regulator, admits that there will be a lot of inertia. But he argues that the focus on the supply business misses the point of 1998. "Competition in supply is not about having the most effective bidding system, it is about who buys electricity from which generator. Ultimately, the customer will be making decisions about the whole system."

At present, suppliers can pass high generation costs on to the consumer. But after 1998, if their generation costs are too high, their customers will be able to go elsewhere.

Mr Boorman believes the prospect of 1998 is already having an influence on the generation market. "It makes people think very hard about the decision they are taking," he says.

Nineteen ninety eight also sees the end of the main long-term contracts between the two biggest coal-burning generators - National Power and PowerGen - and the regional electricity companies. For both generators and suppliers, life will suddenly become much more uncertain.

In an attempt to reduce that uncertainty, both the generators have made bids for two of the largest regional electricity companies: Southern Electricity and Midlands Electricity. National Power and PowerGen want to expand into domestic supply, partly because they fear that the profitability of generation will fall and the returns on supply will rise. In order to compete effectively in the domestic market, they argue that they need the skills and systems that the reccs have to offer. Their critics suggest that what the reccs really provide is a fairly secure mar-

ket for their electricity.

Yet, even if all the two reccs' requirements were met by their parent generators, it would account for well under half of the generators' output. The rest would have been sold elsewhere.

If recent experience in the industrial and commercial market is anything to go by, the introduction of competition into domestic supply will have a significant impact.

The 5,000 largest electricity consumers in the country have been free to shop around since 1994 and two-thirds of them have now switched suppliers. When the market was opened further last year, adding another 50,000 customers, some electricity companies predicted that relatively few would change. In the event, a quarter moved in the first year.

Yet in another sense, recent experience has been far from encouraging. Partly because so many customers switched in 1994, suppliers' systems were overwhelmed and companies still have tens of millions of pounds worth of disputed bills.

Rees direct some of the blame to the regulator. Professor Stephen Littlechild, who decided just three weeks before the market was opened that customers would not be required to have "intelligent meters". These record consumption every half-hour, allowing suppliers to charge according to the wholesale electricity price, which is set every 30 minutes.

For customers that do not have such meters, suppliers have to estimate their pattern of consumption before charging them. Not surprisingly, this has proved a fertile source of disputes.

The potential problems will be hugely magnified in the domestic market where a requirement for intelligent

meters has been ruled out on cost grounds.

In the light of last year's problems, consultants Coopers and Lybrand and the Commons Trade and Industry committee both expressed concern about the industry's lack of preparation and poor co-ordination for 1998. Offer subsequently agreed to take on the role of co-ordinator, with the pool responsible for the development of the central systems.

Although Offer's initiatives have reassured some of the do-it-ers, serious obstacles remain. The reccs have a long way to go before their own systems can cope with 1998. More worryingly, work has yet started on the central system that will be required to settle accounts between suppliers.

We are talking about one of the biggest new data collection and processing systems in the country. It is a huge task," says the chief executive of one recc.

Before work can start, the thorny issue of who will pay for it must be settled. Cost estimates start at around £200m so it is not surprising that there is disagreement as to how the burden should be shared.

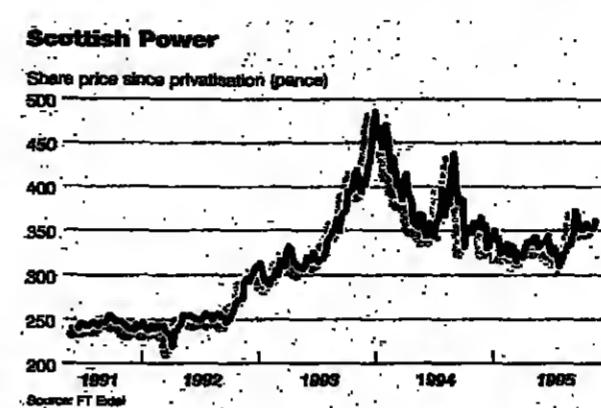
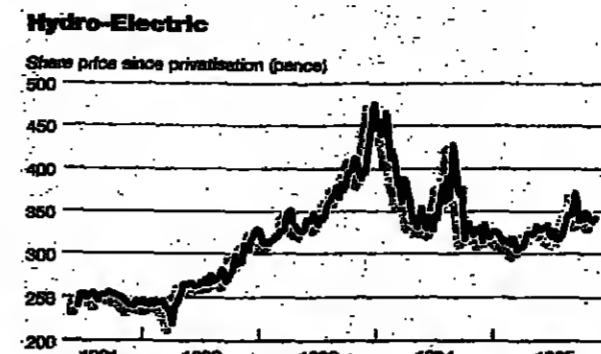
Another unresolved question is whether there will be trials involving real customers. For gas, where 1998 preparations are further advanced, there will be a trial using 500,000 consumers in the south west starting next year. Prof Littlechild is keen on customer tests but some companies believe they will distract attention from the main issues and cause delays that cannot be accommodated.

In private, some executives remain gloomy about the industry's ability to meet the deadline. Says one chief executive: "It is still possible. But it is going to be very, very tight."

The National Grids by David Wighton

## Ambitions lie south

Scottish Power and Hydro-Electric have the same purpose but different strategies



subsidiary, mainly aimed towards businesses and colleagues.

Hydro-Electric, on the other hand, rejected a move into telecommunications after deciding that the £40m to £50m capital expenditure it estimated it required would not provide sufficient returns.

Unlike power companies south of the border, it has retained its high-street shops to help provide customers with easy access to its services, but has no plans to expand in retailing, which it believes is best left to the specialists.

Instead, its focus is on its specialism - energy. Accordingly, it plans to be a supplier of gas through to 2000.

In electricity, Hydro-Electric has, like Scottish Power, already made use of the interconnector between England and Scotland to export excess supplies. Opportunities for both companies will increase with the upgrading of the interconnector, likely later in the decade.

Hydro has interests in four

combined heat and power projects in England and expects to add another two each year. In addition, its 780MW Keayby power station, a joint venture with the Norweb electricity company, is expected to be fully commissioned by Christmas, and the company is negotiating with British Gas to take a stake in its project for a 730MW power station near Bristol.

The company hopes to extend its generation interests further by buying those of the National Grid, the England and Wales transmission company that are up for sale. However, competition is intense.

Hydro is unlikely to follow Scottish Power's lead in buying a regional electricity company in England and Wales. "The ideal opportunity would be one that provided us with a large supply business," says Mr Mike Keohane, head of corporate communications. "We believe it is possible to develop our options without buying the distribution element of a regional electricity company."

## NIE share price soars

The government took no chances when it privatised Northern Ireland Electricity two years ago.

Fearful that the political problems of the province could frighten off investors from buying shares, it offered the company on what most investors and analysts considered favourable terms.

However, analysts believe the precedent of the reccs' regulatory review is that NIE will not be penalised for underperforming.

In addition, the company has an impressive cost-cutting record. In just two years it has reduced its staff numbers by 28 per cent - something most reccs have only been able to do in five.

Whatever happens to the company's share price, shareholders seem assured of a large growth in dividends over the next two years.

NIE has taken advantage of the strong balance sheet it was blessed with at privatisation to effect share buybacks. Some analysts believe it will increase annual dividends by 20 per cent this year and next.

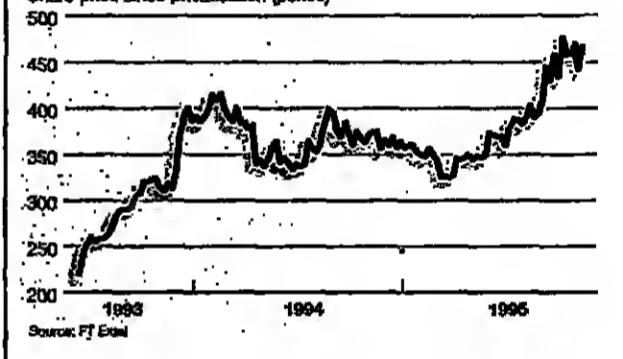
Beyond that, dividend growth is likely to fall rapidly but even then it could reach 10 per cent a year, according to some analysts. The company will enjoy additional opportunities through the Scotland and Northern electricity interconnector it is helping to finance.

It may also enter joint ventures to supply natural gas.

These factors will enable it to offset at least some of the effects of the tighter regulation that is expected.

## Northern Ireland Electricity

Share price since privatisation (pence)



## A new nuclear reactor.

The first thing it generates is jobs.

George Moore, Head of Babcock Energy Limited, Retford.

Charles Grant, Head of Civil Engineering, Group of Areas.

Derek South, Manager of Fermentation, Stirlings Engineering Services Limited, Peterhead.

Alan Lake, Engineering Manager, Stirlings Engineering Services Limited, Peterhead.

The benefits of Sizewell B have been percolating through British industry for some 7 years now. During this period Nuclear Electric's contracts have benefited more than 3,000 British companies and created literally thousands of high quality jobs.

The project has also re-established Britain as a major force in nuclear expertise, with a newly created bank of highly exportable skills. 120 nuclear power stations are now being planned or built worldwide; just one would create thousands of jobs and millions of pounds for the UK balance of payments. That's potentially great news for the many highly export-oriented firms, like Babcock, that have a major role to play in Great Britain.

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UK ELECTRICITY 3

## 4 UK ELECTRICITY

■ Executive pay: by William Lewis

## Labour given an easy target

Criticism has come from both sides of the political spectrum, but the worst may be over. Executives of privatised companies have achieved an unusual feat in the past few months - uniting Labour and Conservative MPs in criticism of their salary and share option packages.

Asked in February by Mr Tony Blair, leader of the Opposition, whether he shared public anger at the pay awards, the prime minister, Mr John Major, was unequivocal. "Yes, I do find these payments as distasteful as you and I dare say, many other people as well. Where they cannot be justified, I do believe they bring the system into disrepute," he replied.

The prime minister's comments followed several years of campaigning by Mr Gordon Brown, shadow chancellor, during which time he has developed privatised executive pay into one of the Labour party's most effective campaign themes.

"There is no doubt it has been made easy for Labour," a government minister said. "Almost on a weekly basis they have been provided with another so-called scandal to exploit."

Other than Mr Cedric Brown, the chief executive of British Gas, directors of electricity companies have been the most fiercely criticised for their pay packages.

Directors' pay is one of the main reasons why electricity privatisation remains unpopular with voters.

Since privatisation, attacks have focused on three main areas of directors' remuneration packages.

Firstly, basic salary increases, which for many industry executives leapt dramatically immediately after privatisation. Strong share price performance then led to further large salary increases.

Secondly, share options which have yielded some executives profits before tax of up to £1m.

Thirdly, pay-offs to executives forced to resign as a

result of takeovers or management changes. Most industry executives were awarded three-year rolling contracts at privatisation and executives' share options have also formed part of severance payments. Directors of companies that have been taken over but who have kept their jobs have also benefited through their share options being bought out in the takeover process.

As a result, there have been numerous embarrassing revelations this year:

- In January, PowerGen revealed that its directors had been awarded basic salary increases of up to 14 per cent as well as thousands of new executive share options. Mr Ed Wallis, chief executive, received an increase of £25,000 - or 9 per cent - taking his basic pay to £200,000. He was also given 53,500 share options that can be exercised in five years' time if certain performance criteria are met. In April 1994 Mr Wallis cashed in share options worth £905,000. His basic salary when PowerGen was privatised in 1991 was £75,890.

- In February, on the day the government announced its plans to sell off its remaining 40 per cent shareholdings in National Power and PowerGen, Labour released research showing directors and senior executives of both companies were sitting on profits from share options worth £23m.

- In August, three directors of London Electricity realised total cash profits of just under £1m through exercising and selling share options.

PowerGen's Ed Wallis: cashed in share options worth £905,000

• Last month, directors of the National Grid transmission company were heavily criticised by executives of other power companies, as well as politicians, for insisting on accepting more than £900,000 in special dividends when the grid is floated. Sir Keith Stuart, chairman of the Seebo regional electricity company, said it was quite wrong that the directors would benefit from the dividend, which was designed to pay for customer discounts and capital gains tax. The row enabled Labour's Mr Brown to say: "Vet again the Tories of the boardroom of our privatised utilities come before the consumer and the taxpayer."

Nevertheless, in recent weeks industry executives have begun to believe that the worst is over. "We have weathered the storm and it should be a lot better now," one non-executive director of a regional electricity company said. For those companies which have been taken over, far less information on directors' pay will now have to be disclosed.

For example, as a subsidiary of Hanson, Eastern Electricity, a regional electricity company, will be forced to disclose far more about their directors' pay "will equip critics with even more ammunition to damn them as fat cats", one consultant says.

Greenbury's suggestion on pension disclosure is the most extreme example, with experts describing it as a "hidden bombshell", not just for privatised companies. New Bridge Street, which advises public companies on executive remuneration structures, says that if companies are forced to follow Greenbury's recommendation on pensions, "total emoluments disclosed for directors typically might increase by 20 to 25 per cent". It says that in some instances the increase could be as high as 50 per cent.

With every electricity company also committed to announcing the findings of its Greenbury-inspired pay review at its next annual meeting, it seems certain that the storm clouds will remain overhead in the run-up to the next general election.

It concluded that "the privatised water and energy companies should review comprehensively their existing remuneration packages" and

"make a full report to shareholders for discussion at the first available annual meeting".

But the report said some privatised companies had already taken steps to redress the balance where the decisions of their remuneration committees have led to a richness of reward that may not have been intended or has proved unjustifiable.

For example, in April, before publication of the Greenbury report, Yorkshire Electricity announced that its directors would not be awarded any new share options.

A recent study by remuneration experts at Arthur Andersen, the accountancy firm, concluded that companies in the energy sector, which include electricity companies, had the highest average level of compliance with the Greenbury report's recommendations.

But some pay consultants suggest that rather than help placate public anger, implementation of the report could achieve just the opposite and reignite the pay row.

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■ Regulation: by Michael Smith

## Why it's a watchdog's life



Professor Littlechild: skinned against as well as skinning?

PowerGen are falling into line with their commitments to dispose of 5,000MW of capacity.

Prof Littlechild wrung the commitments out of the generators in intense negotiations at the start of last year at a time when he was preparing the ground for the most important decision of his tenure of office - the 1996-2000 price controls on the regional electricity companies.

The result of what critics see as a series of misjudgments is a diminution not only of his own standing but also of the reputation of the regulatory system he helped the government to develop.

But is he really as much to blame as the critics say? And should the regulatory system be overhauled in the way the Labour party and others want?

Retrospective assessments of Prof Littlechild's office may show that he faced a considerably more difficult task than his fellow utility regulators.

With a score of companies to watch over, the electricity industry is both more diffuse and complicated than gas, water and telecommunications.

In addition, Prof Littlechild has been diverted from his primary task of regulating the natural monopoly businesses of power distribution and transmission by the government's failure to introduce what most industry observers regard as an adequate amount of competition into generation.

With National Power and PowerGen owning the vast majority of power stations after privatisation, Prof Littlechild has felt forced to intervene in a market he would have preferred to leave to the forces of competition.

His intervention is beginning to bear fruit, particularly as both National Power and

Some critics believe even that is too lenient, given the recs' ability to cut costs.

Mr Jack Cunningham, former Labour industry spokesman, says a fundamental problem of the current regime is that the regulator is at an institutional disadvantage to the companies' management.

"The regulator finds it difficult to find out the true costs facing the utility, and the scope for increasing efficiency, since the management have a clear incentive to obscure the picture. This means there is a built-in tendency for the price caps to be too loose," he says.

His solution is a profit-sharing system whereby profits above a certain predetermined level would be divided between consumers and shareholders. This, he says, is radically different from the "rate of return" system in the US which critics say encourages companies to spend but provides no incentives to improve efficiency.

Although Mrs Margaret Beckett, former Labour deputy leader, has taken over from Mr Cunningham, an industry spokesman, the broad thrust of the policy has been endorsed by Mr Tony Blair, Labour leader, and work is likely to continue on developing it.

Prof Littlechild argues that the difficulties experienced in the rec price controls are not generic to the "RPI minus x" regime.

He believes they reflect the recs' initial capital structures - seen by most in retrospect to have been over-generous - and the deferral of takeovers through the government's ownership of golden shares.

Recent concerns about the rec distribution price controls are more properly associated with decisions taken at the initial flotation, he says. "The 'RPI minus x' form of controls has achieved a great deal for customers in all the utilities, not least electricity."

Most industry executives feel that such packages had always been possible but that Prof Littlechild and his staff failed to ask the right questions about balance sheets and borrowings when they announced the first price controls. "They didn't do their homework properly," says one.

Whatever the rights and wrongs, the regulator's about-turn in March 1995 was greeted with fury by the City, particularly as it came the day after the government had sold

large stakes in the generation companies. Like rec shares, generator stocks plummeted as the decision focused minds on how all utilities could be affected by regulation.

Some institutional investors questioned whether the job of regulating an industry was too big for one person.

However, there seems little momentum behind an idea floated last year by Mr John Baker, chairman of National Power, that there should be a college of regulators overseeing several of the utilities.

And if the Tory government were re-elected in 1997, it would consider a further concentration of power by appointing a single regulator to watch over the gas and electricity industries.

That is because the electricity and gas supply markets are being opened up to full competition after 1998 and many companies will be operating in both as integrated "utility" groups.

Labour, too, is cool on the idea of a regulatory college. It is planning a much more significant set of reforms.

Its target would be the so-called "RPI minus x" system by which prices are allowed to rise by a set level of percentage points below inflation each year through a formula fixed for several years in advance.

Prof Littlechild in his second review set controls for distribution businesses at an average of about 9.5 per cent below inflation in this and the next four years.

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